

RATINGS: Moody's: Aaa
Standard & Poor's: AAA
Fitch : AAA

NEW ISSUE—Book-Entry Only

In the opinion of Bond Counsel, assuming continuous compliance with certain covenants described herein, under existing law, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. It is also the opinion of Bond Counsel that, under existing law, the Bonds, the interest payable thereon, their transfer and any income derived therefrom, including any profit made in their sale shall be exempt from State of Maryland, county, municipal, or other taxation of every kind and nature whatsoever within the State, provided however that no opinion is expressed concerning estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds or the income therefrom. See the information contained herein under the caption "THE BONDS—Tax Matters".

\$16,000,000
WASHINGTON COUNTY, MARYLAND
PUBLIC IMPROVEMENT BONDS OF 2007

Dated:	May 15, 2007
Due:	July 1, as shown below
Interest Payable:	January 1 and July 1
Denomination:	Integral multiples of \$5,000
Form:	Registered, book-entry only through the facilities of The Depository Trust Company
First Interest Payment Due:	January 1, 2008
Optional Redemption:	The Bonds maturing on or after July 1, 2018 are redeemable prior to maturity as set forth in "THE BONDS—Redemption" herein.
Security:	The Bonds are general obligations of County Commissioners of Washington County (the "County") for the payment of which its full faith and credit and unlimited taxing power are pledged (see "THE BONDS—Sources of Payment" herein).

\$16,000,000
Washington County, Maryland
Public Improvement Bonds of 2007
MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPS*

Maturing July 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP	Maturing July 1	Principal Amount	Interest Rate*	Price or Yield*	CUSIP
2008	\$ 520,000	4.250	3.570	937751 G41	2018	\$ 795,000	4.250	4.000**	937751 H65
2009	540,000	4.250	3.600	937751 G58	2019	825,000	4.250	4.120**	937751 H73
2010	565,000	4.250	3.640	937751 G66	2020	865,000	4.250	4.180**	937751 H81
2011	590,000	4.250	3.670	937751 G74	2021	900,000	4.250	4.220**	937751 H99
2012	615,000	4.250	3.720	937751 G82	2022	940,000	4.250	@100	937751 J22
2013	640,000	4.250	3.760	937751 G90	2023	980,000	4.250	4.280	937751 J30
2014	670,000	4.250	3.780	937751 H24	2024	1,025,000	4.250	4.300	937751 J48
2015	700,000	4.250	3.810	937751 H32	2025	1,065,000	4.250	4.320	937751 J55
2016	730,000	4.250	3.840	937751 H40	2026	1,115,000	4.250	4.330	937751 J63
2017	760,000	4.250	3.900	937751 H57	2027	1,160,000	4.250	4.340	937751 J71

(Accrued Interest from May 15, 2007 to be added)

* The interest rates and prices or yields shown above are those resulting from the successful bids for the Bonds on May 22, 2007 and were furnished by the successful bidders. Other information concerning the terms of the reoffering of the Bonds, if any, should be obtained from the successful bidders and not from the County. (See "MISCELLANEOUS—Sale at Competitive Bidding" herein.)

**Priced to par call

Conditions Affecting Issuance: The Bonds are offered when, as and if issued, subject to, among other conditions, the delivery of the Bonds and approving legal opinion of Venable LLP, Bond Counsel, and other conditions specified in the Official Notice of Sale. Delivery will occur on or about June 7, 2007.

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.



This cover page contains certain information for quick reference only. It is not a summary of this issue. Prospective bidders and investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: May 22, 2007

No dealer, broker, salesman or other person has been authorized by the County Commissioners of Washington County (the "County") or the successful bidders to give any information or to make any representations with respect to the Bonds or the County other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the County and other sources which are deemed to be reliable but it is not to be construed as a representation by the County as to information from sources other than the County.

This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or holders of any of the Bonds.

All quotations from and summaries and explanation of provisions of laws and documents herein do not purport to be complete and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the respective dates as of which information is given herein or the date hereof.

**WASHINGTON COUNTY, MARYLAND
ADMINISTRATION BUILDING
100 WEST WASHINGTON STREET
HAGERSTOWN, MARYLAND 21740**

COUNTY COMMISSIONERS

John F. Barr, President
Terry L. Baker, Vice President
William J. Wivell, Commissioner
James F. Kercheval, Commissioner
Kristin B. Aleshire, Commissioner

ADMINISTRATION

Gregory B. Murray, County Administrator
Joni L. Bittner, County Clerk
John M. Martirano, Esquire, County Attorney
Debra S. Murray, C.P.A., Director of the Office of Budget and Finance

COUNTY TREASURER

Todd L. Hershey

FINANCIAL ADVISOR

Public Advisory Consultants, Incorporated
Owings Mills, Maryland

BOND COUNSEL

Venable LLP
Baltimore, Maryland

INDEPENDENT AUDITOR

Smith Elliott Kearns & Company, LLC
Hagerstown, Maryland

BOND REGISTRAR AND PAYING AGENT

Manufacturers and Traders Trust Company
Baltimore, Maryland

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I. The Bonds

Introduction

The purpose of this Official Statement, including the cover page and appendices, is to provide information for prospective purchasers and others regarding the County Commissioners of Washington County (the "County") and its \$16,000,000 Public Improvement Bonds of 2007 (the "Bonds").

All estimates and assumptions herein have been based upon information believed to be reliable and correct; however, statements made involving estimates and assumptions, whether or not expressly so stated, are intended merely as such and not as representations of facts. Figures herein relating to tax collection, assessed value of property and the financial position of the County have been taken from official records of the County.

The County has provided the material and information contained in this Official Statement and has authorized the execution and distribution of this Official Statement.

Any questions concerning this Official Statement or the Bonds should be addressed to the Director of the Office of Budget and Finance (the "Finance Director"), Washington County Administration Building, 100 West Washington Street, Room 304, Hagerstown, Maryland 21740. Telephone: (240) 313-2300.

Description of Bonds

The Bonds will be dated May 15, 2007. The Bonds will be issued in the principal amount of \$16,000,000 and will mature on July 1 in each of the years and in the amounts set forth on the cover page hereof.

The Bonds will be legally binding general obligations of the County to the payment of which the full faith and credit and unlimited taxing power of the County are pledged. (See "THE BONDS—Sources of Payment" herein.)

Interest on the Bonds, calculated on the basis of a 30-day month/360-day year factor, will be payable at the interest rates specified in this Official Statement on January 1, 2008 (7 ½ months), and semiannually thereafter on the first day of July and January of each year until the date of maturity unless redeemed prior to that date. Interest payments will be made to the persons who are registered owners of record as of the 15th day of the month next preceding each such interest payment date. Each Bond shall bear interest from the most recent date to which interest has been paid or, if no interest has been paid, from May 15, 2007.

The Bonds will be issued in fully-registered form without coupons, in denominations of \$5,000 and integral multiples thereof. The Bonds initially will be issued in book-entry form without any physical distribution of certificates made to the public. The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds and the Bonds will be registered in the name of DTC's partnership nominee, Cede & Co. (See "THE BONDS—DTC and Book-Entry Only System" herein).

So long as the Bonds are maintained in book-entry form, payments of principal of, premium, if any, and interest on the Bonds will be made as described below under "DTC and Book-Entry Only System." At any other time the principal amount of and premium, if any, on the Bonds will be payable at the principal corporate trust office of Manufacturers and Traders Trust Company (the "Bond Registrar" and "Paying Agent").

Interest on the Bonds will be payable by check of the Paying Agent mailed to the registered owners thereof. The principal of, premium, if any, and interest on the Bonds will be paid in lawful money of the United States of America in the manner and at the places hereinabove described.

So long as the Bonds are maintained in book-entry form, transfers of ownership interests will be made as described below under "DTC and Book-Entry Only System." At any other time, any Bond may be exchanged for a Bond or Bonds in authorized denominations of \$5,000 or integral multiples thereof in aggregate principal amount equal to the principal amount of the Bond transferred or exchanged and maturing on the same date and bearing interest at the same rate. The transfer of any Bond may be registered upon presentation and surrender of such Bond at the office of the Bond Registrar and Paying Agent, together with a written instrument of transfer duly executed by the registered owner or his attorney or legal representative. The Bond Registrar and Paying Agent may require the person requesting any

such exchange or transfer to reimburse it for any tax, fee or other governmental charge, shipping charges and insurance payable in connection therewith. The Bond Registrar and Paying Agent shall not be required to register the transfer of any Bond or make any such exchange of any Bond after such Bond or portion thereof has been selected for redemption.

DTC and Book-Entry Only System

Initially, DTC will act as securities depository for the Bonds and one fully-registered Bond will be issued for each maturity of the Bonds and registered in the name of Cede & Co., as DTC's partnership nominee or such other name as may be requested by an authorized representative of DTC. DTC is a limited-purpose trust company organized under the laws of the State of New York (the "New York Banking Law"), a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard and Poor's highest rating: AAA. The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the records of the Direct and Indirect Participants. Beneficial Owners will not receive written confirmation from DTC of their purchase, but are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfer of ownership interests in the Bonds are to be accomplished by entries made on the books of the Direct and Indirect Participants who act on behalf of the Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry only system is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other names as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownerships. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants remain responsible for keeping account of their holdings on behalf of their customers.

Redemption proceeds, payments of the principal of, redemption premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the County or the Paying Agent on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant, and not of DTC (or its nominee), or the Bond Registrar and Paying Agent or the County, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest on the Bonds to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the issuer/County or

Paying Agent; disbursement of such payments to Direct Participants shall be the responsibility of DTC; and disbursement of such payments to the Beneficial Owners shall be the responsibility of the Direct and Indirect Participants.

So long as the Bonds are held by DTC under a book-entry only system, the Bond Registrar and Paying Agent will send any notice with respect to the Bonds only to DTC. Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by agreements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant or any Beneficial Owner, of any such notice and its content or effect will not affect the validity of any action premised on such notice.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer/County as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

DTC may discontinue providing its services as securities depository for the Bonds at any time by giving reasonable notice to the County or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered. The County may determine to select a different securities depository or the County may determine to discontinue the book-entry only system at any time by giving notice to DTC (or its successor). In the event the County determines to discontinue a book-entry only system of registration of the Bonds, bond certificates will be delivered and payments of interest, principal and redemption or purchase premium, if any, will be made as described above under "THE BONDS—Description of Bonds".

The information under this heading concerning DTC and DTC's book-entry only system has been obtained from sources that the County believes to be reliable, but the County takes no responsibility for the accuracy thereof. No representation is made by the Bond Registrar and Paying Agent or the County as to the completeness or the accuracy of such information or the absence of material adverse changes in such information subsequent to the date of this Official Statement.

THE COUNTY AND BOND REGISTRAR AND PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OF THE BONDS WITH RESPECT TO: (1) THE BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (3) THE PAYMENT OF ANY AMOUNT DUE TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THE BONDS; (4) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BONDS TO BE GIVEN TO BOND OWNERS; (5) THE SELECTION OF BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS BONDHOLDER.

Authorization

The Bonds are issued pursuant to the authority of Chapter 205 of the Laws of Maryland of 2004, as amended ("Chapter 205"), and in accordance with a resolution adopted by the Board of County Commissioners of Washington County (the "Board") on May 8, 2007 as supplemented (the "Resolution"), copies of which are available at the office of the Director of Finance. Chapter 205 is hereafter referred to as the "Act".

Bond Insurance

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds, effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Bond Registrar and Paying Agent. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Financial Guaranty Insurance Policy shall be fully discharged.

In the event the Bond Registrar and Paying Agent has notice that any payment of principal of or interest on a Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Financial Guaranty Insurance Policy). Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of the Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$10,194,000,000 (unaudited) and statutory capital of approximately \$6,557,000,000 (unaudited) as of March 31, 2007. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Financial Guaranty Insurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "Bond Insurance".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 and filed on March 1, 2007;
2. The Company's Current Report on Form 8-K dated and filed on April 25, 2007; and
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2007 and filed on May 10, 2007.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "Available Information".

Application of Proceeds

The proceeds of the Bonds are expected to be used to finance a portion of the costs of the following projects:

<u>Use</u>	<u>Amount</u>
Various Education Projects	\$ 5,789,442
Infrastructure Projects	5,552,459
Solid Waste Projects	2,708,787
Airport Projects	1,258,267
Public Facilities and Issuance Cost	691,045
	<u>\$ 16,000,000</u>

Redemption

The Bonds that mature on or before July 1, 2017, are not subject to optional redemption prior to their maturities. The Bonds that mature on or after July 1, 2018, are subject to optional redemption commencing on July 1, 2017, as a whole at any time or in part on any interest payment date, at the option of the County, without premium plus accrued interest thereon to the date fixed for redemption.

If less than all of the Bonds of any one maturity shall be called for redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Bond Registrar and Paying Agent in such manner as in its discretion it shall determine; provided that, so long as the Bonds are maintained in book-entry form, the selection of individual ownership interests in the Bonds to be credited with such partial redemption shall be made by DTC in accordance with DTC's then existing procedures.

If the County elects to redeem all or a portion of the Bonds outstanding, it shall give a redemption notice by first class mail, postage prepaid, at least 30 days prior to the date fixed for redemption to the registered owner of each Bond at the address of such registered owner appearing on the Bond Register, provided, however, that the failure to mail the redemption notice or any defect in the notice so mailed shall not affect the validity of the redemption proceedings. The County may, but shall not be obligated to, also publish such notice of redemption at least once not less than thirty (30) days prior to the date of redemption in a newspaper circulating in the City of Baltimore, Maryland, and also in a financial journal or daily newspaper of general circulation in the City of New York, New York. The redemption notice shall state (i) whether the Bonds are redeemed in whole or in part and, if in part, the maturities and numbers of the Bonds to be redeemed, (ii) in the case of a partial redemption of any Bond, the portion of the principal amount which is to be redeemed, (iii) that the interest on the Bonds to be redeemed shall cease on the date fixed for redemption, (iv) the date fixed for redemption and the redemption price, and (v) that the Bonds to be redeemed shall be presented for redemption and payment on the date fixed for redemption at the principal corporate trust office of the Paying Agent.

From and after the date fixed for redemption, if notice has been duly and properly given and if funds sufficient for payment of the redemption price plus accrued interest thereon to the date fixed for redemption are held by the Paying Agent on such date, the Bonds so called for redemption shall become due and payable at the redemption price provided for redemption of such Bonds on such date, interest on such Bonds shall cease to accrue and the registered owners of such Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof plus accrued interest thereon to the date fixed for redemption from the monies so held by the Paying Agent. Upon presentation and surrender for redemption in compliance with the redemption notice, the Bonds to be redeemed shall be paid by the Paying Agent at the redemption price plus accrued interest thereon to the date fixed for redemption. If Bonds so called for redemption are not paid upon presentation and surrender, the Bonds designated for redemption shall continue to bear interest at the rates stated therein until paid.

Sources of Payment

The Act provides that the Bonds constitute an irrevocable pledge of the full faith and credit and unlimited taxing power of the County to the payment of the maturing principal of and interest on the Bonds as and when they become payable. The Act further provides, and the County has covenanted in the Resolution, that in each and every fiscal year that any of the Bonds are outstanding, the County shall levy or cause to be levied ad valorem taxes upon all assessable property within the corporate limits of Washington County in rate and amount sufficient to provide for or

assure the payment, when due, of the principal of and interest on all Bonds maturing in each such fiscal year and, if the proceeds from the taxes so levied in such fiscal year prove inadequate for such payment, additional taxes shall be levied in the succeeding fiscal year to make up any deficiency.

There will be deducted from the gross proceeds received from the sale of the Bonds, the amount received by the County on account of accrued interest from the date of the Bonds to the date of delivery thereof. Such amount will be set apart by the County in a separate account and applied to the first interest payment on the Bonds.

Bondholders' Remedies

It is the opinion of Bond Counsel that the County may be sued in the event that it fails to perform its obligations under the Bonds and the Resolution to the registered owners and that any judgments resulting from such suits would be enforceable against the County. Nevertheless, a registered owner of a Bond who has obtained any such judgment may be required to seek additional relief to compel the County to assess, levy and collect such taxes as may be necessary to provide the funds from which such judgment may be paid. Although there is no Maryland law with respect to this issue, it is the opinion of Bond Counsel that the appropriate courts of Maryland have jurisdiction to entertain proceedings and power to grant additional relief, such as a mandatory injunction, if necessary, to enforce the levy and collection of such taxes and payment of the proceeds thereof to the holders of general obligation bonds, *pari passu*, subject to the inherent constitutional limitations referred to below.

It is also the opinion of Bond Counsel that, while remedies would be available to the registered owners of the Bonds and while the Bonds are entitled to constitutional protection against the impairment of the obligation of contracts, such constitutional protection and the enforcement of such remedies would not be absolute.

Enforcement of a claim for payment of the principal of or interest on the Bonds could be made subject to the provisions of Federal bankruptcy laws or of any statutes that may hereafter be constitutionally enacted by the United States Congress or the Maryland General Assembly extending the time for payment or imposing other constraints upon enforcement.

Tax Matters

Federal Income Tax

In the opinion of Bond Counsel, under existing law, the interest on the Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), and may be subject to the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States.

The provisions of the Internal Revenue Code of 1986, as amended (the "Code"), include several restrictions that must be met simultaneously with or subsequent to the delivery or issuance of the Bonds, some of which must be complied with throughout the term of the Bonds. The County has adopted resolutions covenanting to comply with these requirements in order to maintain the exemption of interest on the Bonds from federal income taxation. The opinion of Bond Counsel assumes that the County will comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Bond Counsel assumes no responsibility for, and will not monitor, compliance with the covenants and agreements of the County. In the event of noncompliance with such covenants, the available enforcement remedies may be limited by applicable provisions of law and, therefore, may not be adequate to prevent interest on the Bonds from becoming includable in gross income for federal income tax purposes retroactively to the date of issue.

Interest on the Bonds is not included in corporate or individual alternative minimum taxable income as a separate enumerated item of tax preference or other specific adjustment. However, for purposes of computing the corporate alternative minimum tax contained in the Code, a corporation will generally be required to increase its alternative minimum taxable income by 75% of the amount by which its "adjusted current earnings" (a modified definition of "earning and profits") exceeds its alternative minimum taxable income (computed without regard to this adjusted current earnings adjustment). For such purpose, "adjusted current earnings" will include, among other items,

tax-exempt interest income from the Bonds. Interest income on the Bonds may also be included with the "dividend equivalent amount" for purposes of determining the branch profits tax imposed by the Code on certain foreign corporations conducting a trade or business in the United States.

Other federal income tax consequences may arise from ownership of the Bonds, and in connection therewith, attention is directed to the following provisions of the Code: (a) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Bonds, (b) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds, (c) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on obligations such as the Bonds, and (d) for S corporations having subchapter C earnings and profits, the receipt of certain amounts of passive investment income, which includes interest on the Bonds, may result in the imposition of income tax on such passive investment income and, in some cases, loss of S corporation status.

A purchaser's tax basis in a Bond may exceed the amount payable at maturity for the Bond such that the Bond will be considered to have been issued at a premium for federal income tax purposes. In such a case a purchaser must determine the amortizable bond premium based on the amount payable for the Bond on the maturity or other call date that produces the lowest yield to maturity on the Bond to the purchaser. The amortizable bond premium that accrues during the period the purchaser holds the Bond (determined by using the constant yield method) must be applied to reduce the purchaser's tax basis in the Bond for purposes of determining gain or loss to be recognized for federal income tax purposes upon a sale or other disposition of the Bond. Even though the purchaser's basis is reduced, no federal income tax deduction is allowed. Purchasers of any Bonds at a premium, whether at the time of initial issuance or subsequent thereto, should consult with their own tax advisors with respect to the determination and treatment of premium for federal income tax purposes and with respect to state and local tax consequences of owning such Bonds.

The initial public offering price of certain maturities of the Bonds may be less than the amount payable on such Bonds at maturity (the Bonds of such maturities are referred to herein as "Discount Bonds"). The difference between the initial public offering price at which a substantial amount of the Discount Bonds of the same maturity was sold and the principal amount of such Discount Bonds payable at maturity constitutes "original issue discount." Original issue discount on the Discount Bonds is treated as interest on the Bonds for purposes of federal income taxation. In the case of any holder of Discount Bonds, the amount of original issue discount which is treated as having accrued with respect to such Discount Bonds is added to the cost basis of the holder in determining, for federal income tax purposes, gain or loss upon disposition (including sale, redemption or payment at maturity). A holder of a Discount Bond will recognize gain or loss upon the disposition of the bond (including sale, redemption or payment at maturity) in an amount that is equal to the difference between (i) the amount received upon such disposition and (ii) the sum of (a) the holder's cost basis in the Discount Bond and (b) the amount of original issue discount, which is treated as having accrued during the period the holder held such bond.

Original issue discount on Discount Bonds will be attributed to semiannual compounding periods during the life of each Discount Bond in accordance with a constant rate of interest accrual method. The yield to maturity of the Discount Bonds is determined based on semiannual compounding. Such yield is then used to determine an amount of accrued interest for each semiannual compounding period. For this purpose, interest is treated as compounding semiannually on days which are determined by reference to the maturity date of the Discount Bonds. The amount of original issue discount which is treated as having accrued in respect of a Discount Bond for any particular semiannual compounding period is equal to the excess of (i) the product of (a) one-half of the yield for the Discount Bond (adjusted as necessary for an initial short period) multiplied by (b) the amount that would be the tax basis of such Discount Bond at the beginning of such period if held by an original purchaser who purchased at the initial public offering price, over (ii) the amount actually payable as interest on such Discount Bond during such period. The tax basis of a Discount Bond, if held by an original purchaser, can be determined by adding to the initial public offering price the sum of amounts that have been treated as accrued interest for such purposes during all prior periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then interest, which would have accrued for that semiannual compounding period for federal income tax purposes, is to be apportioned in equal amounts among the days in such compounding period.

Prospective purchasers of the Bonds should consider possible state and local, excise, or franchise tax consequences arising from original issue discount on the Bonds. In addition, prospective corporate purchasers of the

Bonds should consider possible federal income tax consequences arising from original issue discount on the Bonds under the alternative minimum tax and the branch profits tax described above.

The Internal Revenue Service (the "Service") has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for Federal income tax purposes. If the Service does audit the Bonds, under current Service procedure, the Service will treat the County as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

Interest paid on tax-exempt obligations after December 1, 2005 is subject to information reporting for federal income tax purposes in a manner similar to taxable obligations. This reporting requirement does not in and of itself affect or alter the excludability of such interest from gross income for federal tax purposes or any other federal tax consequences of purchasing, holding or selling tax-exempt obligations.

Legislative proposals presently before Congress or that are introduced after issuance and delivery of the Bonds, if enacted, could alter or amend one or more of the federal tax matters referred to above and/or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that any such proposal would not apply to obligations issued prior to the enactment of such proposal. Accordingly, prospective purchasers of the Bonds should consult with their tax advisors as to the status and potential effect of such proposals.

The foregoing is only a general summary of certain provisions of the Code as enacted and in effect on the date hereof and does not purport to be complete. Prospective purchasers and holders of the Bonds should consult their own tax advisors as to the effects, if any, of the Code in their particular circumstances.

Maryland State and Local Income Tax

In the opinion of Bond Counsel, under existing law, the Bonds, their transfer, and the interest payable thereon and any income derived there from including any profit made on the sale thereof are exempt from State, county and municipal, or other taxation of every kind and nature whatsoever in the State of Maryland, but no opinion is expressed as to estate or inheritance taxes, or any other taxes not levied or assessed directly on the Bonds or the income there from.

Interest on the Bonds may be subject to state or local income taxes in jurisdictions other than the State of Maryland under applicable state or local tax laws. Prospective purchasers of the Bonds should consult their tax advisors regarding the taxable status of the Bonds in a particular state or local jurisdiction other than the State of Maryland.

II. Government and Administration

Location

Washington County is situated in northwestern Maryland, bordered by Pennsylvania to the north and West Virginia to the south. It is bordered on the east by Frederick County, Maryland and on the west by Allegany County, Maryland. Washington County is approximately 460 square miles in area. The County Seat, Hagerstown, is 70 miles northwest of Washington, D.C and 72 miles west of Baltimore, Maryland. Two major highways, Interstate 81 – running north and south, and Interstate 70 – running east and west, cross within Washington County's borders.

The major part of Washington County is fertile valley with rolling terrain. The lowland belt known as the Hagerstown Valley lies between the Blue Ridge Mountains to the east and the Appalachian Highlands to the west.

Form of Government

The County is a body corporate and politic, which performs all local governmental functions in Washington County except those performed by the nine incorporated municipalities within Washington County. The executive offices of the County are located at 100 West Washington Street, Hagerstown, Maryland 21740. The County's central telephone number is (240) 313-2210.

Under the Code of the Public Local Laws of Washington County (1991 Edition), as amended, being Article 22 of the Code of Public Local Laws of Maryland (the "County Code"), both the executive and legislative functions of the County are vested in the elected, five-member Board of County Commissioners of Washington County (the "Board"). The Board may only exercise such powers as are conferred upon it by the General Assembly of Maryland, including authorization to issue debt to finance its capital projects. County Commissioners are elected on a countywide basis and serve four-year terms.

Each member of the Board has one vote and a simple majority of the Board is sufficient to take action subject to the authority vested in the Board by the County Code. Emergency action also requires a simple majority vote. The Board elects its own officers. The General Assembly of Maryland must authorize powers not specifically authorized by the County Code.

As authorized by the County Code, the Board appoints a County Administrator. The County Administrator is selected on the basis of his or her executive and administrative abilities, including his or her knowledge and experience in public administration. The Administrator is responsible for the proper administration of the Board's affairs. He is charged with the supervision of the departments and agencies of the County, and is responsible for the day-to-day operations of the County government in conformity with public local laws and other laws applying to the County.

County financial matters are administered in part through the office of Treasurer of Washington County. The County Code establishes the elective office of County Treasurer. The County Treasurer is constituted the collector of County and State taxes, charges and assessments and is charged with the enforcement of collection of taxes in the manner provided by law.

As authorized by the County Code, the Board appoints a Director of the Office of Budget and Finance (the "Finance Director"). The Finance Director is appointed on the basis of his or her experience in financial administration. The Finance Director is charged with assisting the Board in the preparation and administration of the County budgets and other accounting and fiscal matters as the Board deems necessary. In addition, the Finance Director is responsible for the study of the organization, methods and procedures of each office, department, board, commission, institution, and agency of County government.

Legislative and Administrative Officials
Board of County Commissioners

JOHN F. BARR, a first-term County Commissioner, was elected in 2006 and serves as President of the Board of County Commissioners. He was raised in Boonsboro, Maryland and is a Master Electrician in five states. In high school, Mr. Barr worked for his dad as a field electrician at M/L Electric, Inc., which began in 1927. In 1979 he formed the management team overseeing the service department. In 1984 Mr. Barr bought the company from his dad and changed the name to Ellsworth Electric, Inc. Mr. Barr is active in various service organizations and community projects.

TERRY L. BAKER, a first-term County Commissioner, was elected in 2006, and serves as Vice-President of the Board of County Commissioners. He is a 1973 graduate of Williamsport High School, a 1975 graduate of Hagerstown Community College and a 1978 graduate of Auburn University, with a degree in Education. Mr. Baker is employed as a trades instructor (carpentry) at the Washington County Technical High School. Prior to being elected a County Commissioner he served as a Council Member for the municipality of Clear Spring, from 2002 to 2004, and as Assistant Mayor from 2004 to 2006.

WILLIAM J. WIVELL, C.P.A., a third-term County Commissioner, was first elected in 1998, and served as Vice-President of the Board from 2002 to 2006. Mr. Wivell is the Business Manager for Saint James School. He is a Certified Public Accountant and holds a Masters degree in Business Administration from Mount Saint Mary's University. He also holds a Bachelor's degree and Associate's degree from Shepherd University and Hagerstown Community College, respectively. He is a member of the American Institute of CPAs (AICPA) and the Maryland Association of CPAs (MACPA). Mr. Wivell is a lifetime resident of Washington County.

JAMES F. KERCHEVAL, a second-term County Commissioner, was first elected in 2002. He was born and raised in Washington County. Mr. Kercheval graduated from Smithsburg High School (Co-Valedictorian) in 1983 and attended Hagerstown Community College and received a B.A. degree in Mathematics/Computer Science from Shippensburg University in 1987. Following college, he became partner in Em-Ing's Broiled Foods, a restaurant/catering operation in Ocean City, MD. In 1990 he opened Kerch's Southern BBQ in Hagerstown. Mr. Kercheval is a member of various local organizations including the Washington County Chamber of Commerce, Board member of Hagerstown Rotary, Past-President of the Hagerstown Jaycees, and was named Washington County Chamber of Commerce's Small Businessman of the Year in 2000.

KRISTIN B. ALESHIRE, a first-term County Commissioner, was elected in 2006. Mr. Aleshire is a native of Hagerstown and served six years on the City Council before being elected as a County Commissioner. He is a 1996 graduate of Hagerstown Community College and a 1998 graduate of Salisbury University. Mr. Aleshire is a professional land use planner for ARRO Inc., a local engineering firm.

County Treasurer

TODD L. HERSHEY, County Treasurer was first elected to his position in November 1986. He holds a Bachelor of Science degree, majoring in Sociology, from Guilford College and a Master of Science degree in Management and Administration from Hood College. He was formerly a commercial banker.

Administrative Officials

GREGORY B. MURRAY, County Administrator, is a summa cum laude graduate with a B.S. degree in Business Administration from American Intercontinental University and is currently enrolled in the Master of Public Administration program at the University of Baltimore, a University System of Maryland College. He is a native of Washington County, graduated from Heritage Academy and attended Hagerstown Community College. He was appointed County Administrator on February 27, 2007 after ten years as the Director of the County's Department of Water Quality. Mr. Murray brings twenty-four years of public administration service and leadership to his new role as County Administrator, giving him an extensive knowledge of the County's infrastructure needs, planning and regulatory issues. His prior experience includes working for the municipality of Hancock, Maryland as the public works director. He is a member of the American Society of Public Administration, American Public Works Association, County Engineers Association of Maryland, American Water Works Association, and the Water Environment Federation as well

GOVERNMENT AND ADMINISTRATION

as numerous advisory boards and commissions. Mr. Murray also holds several environmental licenses for management of public utilities and was appointed by Maryland's Governor to the Chesapeake Bay Restoration Fund Advisory Committee. He has worked closely with the Environmental Protection Agency and the Maryland Department of the Environment to help guide policy decisions that improve the quality of available resources in the State.

DEBRA S. MURRAY, C.P.A., Director of the Office of Budget and Finance, holds a B.S. degree in Accounting from Frostburg State University. She was appointed Finance Director in 1995. She served as Assistant Director of the Office of Budget and Finance from 1993 until her appointment as Director. Prior to her employment with Washington County she held the position of audit manager with a regional public accounting firm. She is a member of the American Institute of CPAs, the Maryland Association of CPAs, the Government Finance Officers Association and the Maryland Government Finance Officers Association.

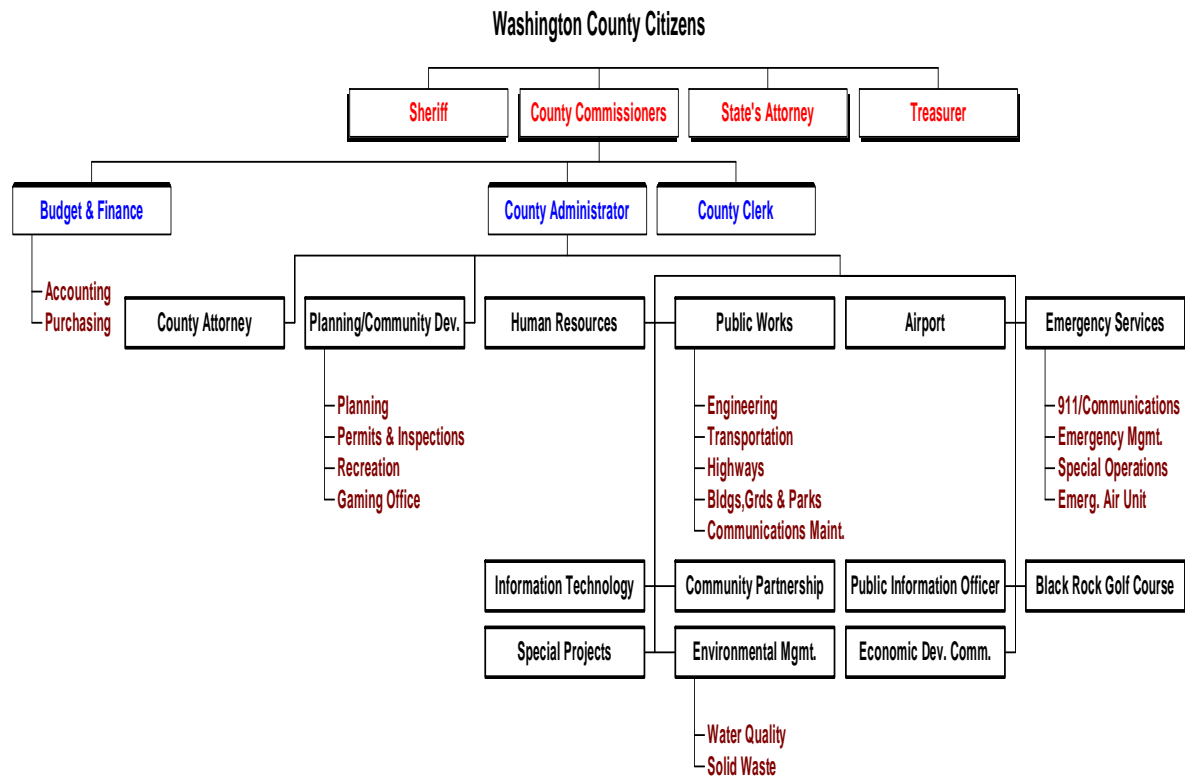
JOHN M. MARTIRANO, County Attorney, attended West Virginia University and the University of Pittsburgh. He holds a B.A. degree, *cum laude*, from West Virginia University and a J.D. degree from the University of Pittsburgh. He was admitted to the Maryland Bar in 1990 and to the West Virginia Bar in 1994. He was in private practice with Miles & Stockbridge from 1990 to 1993 and with Steptoe & Johnson from 1993 to 1996. He was a Senior Surety Claim Attorney with The St. Paul Companies, Inc. (formerly USF&G) from 1996 to 1999. He was appointed Assistant County Attorney for Washington County, Maryland in 1999 and Deputy County Attorney in 2004. He was appointed County Attorney in 2005. He is active in numerous community organizations and is a member of the American, Maryland and Washington County Bar Associations and the International Municipal Lawyers Association.

TIMOTHY R. TROXELL, CEcD, Director of Hagerstown-Washington County Economic Development Commission, is a graduate of Frostburg State University and holds B.S. degrees in Business Administration and Economics. He obtained an MBA from Hood College in Frederick, Maryland and is a graduate of the Economic Development Institute, based in Norman, Oklahoma. His experience spans working for an electric utility company (Potomac Edison/Allegheny Energy) in their Economic Development and Major Accounts departments to Director of Business Development for a general contractor and developer. In October 1998, Mr. Troxell was hired as the Assistant Director for the Hagerstown-Washington County Economic Development Commission and became the Director in 2002. He holds professional memberships in the International Economic Development Council, the Southern Economic Development Council, and the Maryland Economic Development Association, and serves as a board member of various agencies.

MICHAEL C. THOMPSON, Director of Planning and Community Development, is a graduate of Eisenhower College and holds a B.A. degree in Political Science. He obtained a Masters Degree in Public Administration from the University of Georgia. His career spans over twenty-five years in the planning field in rapidly growing communities, both in Wyoming and Maryland. This experience has included all aspects of planning, from the review of subdivisions to the preparation of master plans. Mr. Thompson was hired by Washington County in May 2004 after spending over eighteen years with Frederick County, Maryland having served as Zoning Administrator and Chief of Development Review. He has served on many state committees on various planning issues and served on the Board of Directors of the Maryland Association of Zoning Officials.

JOSEPH KROBOTH, III, P.E., Director of Public Works, is a Professional Land Surveyor, Federal Highway Administration Bridge Inspector, and a certified Fire Protection Specialist. Mr. Kroboth holds an MBA from Frostburg State University, a B. S. degree in Civil Engineering from the University of Maryland, College Park and A.A. degrees in Engineering Science and Engineering Technology from Hagerstown Community College. Mr. Kroboth served as Deputy Director of the Department of Public Works until becoming the Director in 2007. He was the Director of the Department of Emergency Services from 2001-2005. He was formerly the assistant city engineer for Hagerstown, Maryland, prior to being hired by the County in 1990 as Assistant Engineer. Mr. Kroboth is a member of numerous professional associations and groups, and Past-President of the County Engineer's Association of Maryland.

Washington County Government Organizational Chart



County Employment

As of June 30, 2006 the County employed 669 full-time permanent employees and 307 part-time permanent employees. The County has a compensation and classification plan, which is complemented by a performance evaluation system. There are 109 employees of the County Division of Public Works and Division of Emergency Services represented by a collective bargaining agreement that expires on June 30, 2008. The County has not experienced a work stoppage due to labor relations disputes and considers its relationships with employees to be good.

Pension and Retirement System

Employees of the County government are provided retirement benefits through a pension plan (the "Plan"). Participation in the Plan is mandatory and there were 852 participants as of June 30, 2006. All full-time County employees are eligible to participate in the Plan. The Plan also provides death and disability benefits. The employees and the County fund the guaranteed allowance. A non-uniformed participant contributes to the Plan at the rate of 5.5% of their annual salary and uniformed employees contribute 6% of their annual salary.

The County's contribution is comprised of two parts: (i) contribution to cover current service costs; and (ii) annual accrued liability contribution to liquidate the County's unfunded accrued liability by June 30, 2029. Contributions for items (i) and (ii) above are based on an assumed investment rate of 7.75% compounded annually. Contributions for items (i) and (ii) are currently funded at 6.48% of total salary expense. Salaries are assumed to increase at an annual rate of 4.0%. Contributions from participants and from the County are pooled to provide the guaranteed allowance for each member.

The following table presents the pension and retirement contributions and unfunded liabilities of the County and certain County agencies for five fiscal years.

<u>As of July 1</u>	<u>Current Service Costs</u>	<u>Recommended Payment for Unfunded Accrued Liability</u>	<u>Total</u>	<u>Unfunded Accrued Liability</u>
2002	\$ 1,118,210	\$ 900,979	\$ 2,019,189	\$ 8,248,058
2003	1,715,951	844,884	2,560,835	11,741,374
2004	1,815,058	882,023	2,697,081	11,614,984
2005	1,774,636	1,028,378	2,803,014	13,603,738
2006	2,048,204	1,017,330	3,065,534	12,758,453

Source: CBIZ/BGS & G Consulting Group

Other Post–Employment Benefits

In addition to pension and retirement benefits, the County provides its employees with other post-employment benefits (“OPEB”). The County has historically funded these programs on a pay-go basis, but will be required to account for OPEB on an actuarial basis beginning in fiscal year 2008. The County’s actuary has given a preliminary estimate of the liability related to active and retired County employees of \$10,150,000. This is calculated using a 7.75 % discount rate based upon the assumption that the County will create and invest in a trust fund dedicated to paying OPEB. The annual required contribution (ARC) as of July 1, 2005 was \$1,611,000 under level-dollar amortization. For fiscal year 2008, the County anticipates funding \$1,211,350 towards the ARC. The ARC is fully funded in the General, Transit, and Children, Youth, and Family Funds. The ARC in the other funds will be funded over the next four years due to the impact on fees and/or services.

Insurance

The County maintains commercial insurance for general liability, automobile, excess workers' compensation, law enforcement, public officials liability, and catastrophic coverage. The County is required to provide unemployment insurance coverage for County employees.

Certain Services and Responsibilities

Education

The Board of Education of Washington County (the “Board of Education”) implements all educational policies and programs for public schools in Washington County under the administration of the State Board of Education. The Board of Education, composed of seven members elected for four-year terms, oversees 21,569 students (including 512 in pre-kindergarten), in forty-three elementary and secondary schools, which include middle and combined schools. The staff to student ratio in 2005-06 averaged better than one staff member for every 21.5 pupils; the average unrestricted pupil expenditure was \$8,471 for the 2005-06 school year.

The largest General Fund appropriation by the County in its adopted budget for fiscal year 2007 is \$86,306,836 for the Board of Education. The appropriation is for all operating expenditures, including amounts for one-time costs, school health and crossing guards. In addition, the County appropriated \$20,370,873 in its capital budget for fiscal year 2007 for Board of Education projects.

The following table presents the percentage of eighth grade students that attained the advanced proficiency level in the Maryland School Assessment (“MSA”) functional tests for selected peer group counties and the State of Maryland for 2006. Also shown is the percentage of students that attained the advanced proficiency level in algebra on the MSA tests.

MSA Tests	Washington County	Frederick County	Harford County	Carroll County	Charles County	St. Mary’s County	State of Maryland
Mathematics	36.0%	33.3	24.8	23.8	18.6	17.6	22.5
Algebra	45.2%	36.8	26.1	34.8	22.6	18.0	25.9
Reading	29.9%	35.4	30.9	31.0	23.5	25.3	24.0

Source: Maryland Board of Education

Washington County’s high school graduation rate as compared to other selected peer group counties and the State of Maryland is as follows:

Washington County	Frederick County	Harford County	Carroll County	Charles County	St. Mary’s County	State of Maryland
90.48%	96.36	87.22	95.07	86.95	85.83	85.43

Source: Maryland Board of Education

Training/Higher Education

Within a seventy-mile radius of the County seat, the City of Hagerstown, there are more than thirty institutions of higher learning. There are numerous opportunities in Washington County for its residents to obtain education and training beyond high school level. The following describes certain programs and schools within Washington County.

Training

The *Western Maryland Consortium* provides a wide range of workforce development services for jobseekers and employers. Employer services include referral of applicants, customized training, financial aid for on-the-job training, recruitment, and screening assistance. Services are generally provided at no cost to employers.

The *Maryland Industrial Training Partnership* and the *Partnership for Workforce Quality Program* are funded by the State of Maryland. The staff works directly with businesses, reviewing operational plans, and designs or identifies appropriate training. Companies have complete control over the programs and can modify or extend program design. Matching training grants are available to upgrade skills.

Washington County Technical High School is a two-year public high school that is under the administration of the Board of Education. It offers twenty-seven academic courses and fifteen career and technology programs. These programs prepare students for professional/technical careers based on current industry skill standards. Enrollment is open to qualified 11th and 12th grade students, and tuition paying adults.

Barr Construction Institute offers craft, maintenance, and apprenticeship training; continuing education; management education; professional development; and safety training.

Higher Education

Hagerstown Business College, a private junior college since 1938, offers thirteen associate degrees and nine certificate programs in the areas of business, allied health, legal assisting, graphic design, and computer information technology. Students benefit from training on state-of-the-art equipment, instruction by credentialed faculty, and participation in internship experiences.

Hagerstown Community College (“HCC”), founded in 1946, offers more than a hundred programs of study for university transfer or for immediate career preparation, as well as continuing education courses and adult basic education. Associate degrees, certificates and letters of recognition are awarded. The **Technical Innovation Center (TIC)**, located at HCC, is a business incubator, which provides project space and offices for entrepreneurs, start-up businesses, and existing manufacturers. Construction of an addition to the TIC for several biotech research labs will begin in 2007 and be completed in early 2008.

The County appropriated \$6,906,594 in its fiscal year 2007 operating budget for HCC. It receives the balance of its funding from student tuition, state grants, and other miscellaneous sources. In addition, the County appropriated \$2,103,581 in its capital budget for fiscal year 2007 for HCC projects.

University System of Maryland at Hagerstown (“USMH”), opened in January 2005 and is located in historic downtown Hagerstown. USMH offers a variety of undergraduate and graduate degree programs from Frostburg State University; University of Maryland University College, and University of Maryland, College Park; Towson University, and Salisbury University.

Planning and Zoning

The Washington County Planning Commission was created in 1957. The Planning Commission consists of seven members appointed by the Board and is supported by the County’s Planning Department with a staff of sixteen. The Planning Commission first recommended the adoption of a Comprehensive Plan for Washington County in 1971 with a major update being completed in 1981. The Planning Commission recommended various amendments over the next twenty years resulting in a major effort being undertaken to rewrite the Comprehensive Plan, which was adopted by the Board on August 27, 2002.

In 1973, a Zoning Ordinance was adopted which provides four classifications for industrial development: (i) “Industrial General” which encompasses heavy manufacturing plants requiring extensive transportation, water and sewerage facilities; (ii) “Industrial Restricted” which encompasses light manufacturing such as processing or assembly or previously processed materials; (iii) “Planned Industrial” which encompasses the planned development of industrial park locations; and (iv) “Airport” which is a heavy industrial type classification with height limitations located around the Hagerstown Regional Airport. In addition, in October 2002 the Board adopted a new zoning classification, “Office, Research and Technology”, which is geared toward the development of corporate offices, research facilities, and high-tech communication land uses. The County also has a building code administered by the Department of Permits and Inspections, which was updated as of August 2005.

The Planning Department is currently working on updates to the Subdivision Ordinance and the Zoning Ordinance as it relates to the urban areas of Washington County. In keeping with the recommendations of the 2002 Comprehensive Plan, an update to the provisions of the Zoning Ordinance dealing with the rural areas was completed and implemented in July 2005. Major updates to the Adequate Public Facilities Ordinance have been made in reference to schools in recent years as well as the implementation of an excise tax on all new development. The Planning Department also maintains and administers the Water and Sewerage Plan relating to the provision of public water and sewerage facilities in Washington County, the Solid Waste Plan, and the Recreation and Land Preservation Plan. The department also maintains a geographic information system for use in development plan review, as well as for general planning applications.

Land use control and planning within the County’s nine incorporated municipalities is under the jurisdiction of the municipalities. Each of the municipalities, with the exception of the Town of Hancock, has adopted its own zoning and land development regulations.

Hospital and Medical Care

Washington County Health System, Inc. is the parent corporation for Washington County Hospital Association (the "Hospital") and Antietam Health Services, Inc.. The Hospital is a non-profit 274 licensed bed acute care hospital located in Hagerstown, Maryland and serves the residents of Western Maryland, southern Pennsylvania, and the Eastern Panhandle of West Virginia. The Hospital currently offers acute general hospital inpatient services including adult medical and surgical care, obstetrics and newborn care, including a family birthing center and special care nursery, cardiac catheterizations, comprehensive inpatient rehabilitation, radiology and diagnostic services, inpatient and outpatient mental health services, an intensive care unit, a progressive care unit, a coronary care unit, a wound center, and a pediatric unit. The Hospital serves as a regional trauma center, houses an emergency department, and has two urgent care centers. The Joint Commission on Accreditation of Health Care Organizations accredits the Hospital.

Antietam Health Services is a for-profit corporation, which manages community healthcare businesses such as pharmacies, durable medical equipment, and physician practices. Robinwood Medical Center houses comprehensive outpatient services including cancer treatment, physical rehabilitation, women's health, ambulatory surgery, diagnostic imaging services, a pharmacy, medical laboratory services, and private physician practices.

The Washington County Health Department, which provides various health services to the citizens of Washington County, will receive a total of \$4,504,364 in fiscal year 2007 from the County, including \$2,457,992 for its school health program. Along with the main headquarters, it has staff and programs based at eleven other sites and forty-four schools. The Health Department employs a total of 322 full-time and part-time personnel in seven divisions.

The Environmental Health Division of the Health Department engages in food inspection, sanitation and water testing, rabies control, air quality investigation, outbreak investigation and other programs. The Nursing Division is responsible for maternal and child health programs, school health services, school-based health centers, communicable disease surveillance and control, refugee and migrant health services, reproductive health services, STD screening and treatment, HIV case management, emergency preparedness, and other programs. The Health Services Division provides community outreach programs, nutrition services including the federally funded WIC program, dental services, cancer screening, tobacco cessation classes, geriatric evaluation services, hearing and vision screening and other services. The Addictions and Mental Health Division furnish a range of programs covering the treatment and prevention of substance abuse (including alcohol), and mental health services in residential and outpatient settings, detention center, schools and the community. The Health Education and Public Relations Division focuses on health education and promotion, communication and training. The Administration and Personnel Divisions provide management support for all programs.

The recently renamed John Hopkins George W. Comstock Center for Public Health Research and Prevention (formerly the Training Center for Public Health Research) was established in 1962 as a joint enterprise of the Maryland Department of Health and Mental Hygiene, the Washington County Health Department, and the Johns Hopkins Bloomberg School of Public Health. It is housed at the site of the Health Department's main office at 1302 Pennsylvania Avenue. At present, the primary function of the Center is to offer consultation to the Health Department regarding community research and provide a base of operations for faculty and students at John Hopkins who are interested in community-based research into the causes and means of prevention of human disease, notably heart disease, cancer, and stroke. With the establishment of two large serum banks (CLUE) in 1974 and 1989, cancer studies have become the major enterprise. The Center has also become associated with several multi-site collaborative studies. Funding is sponsored through research grants by the National Institute of Health as well as private foundations.

There are nine privately-owned licensed nursing homes with more than 1,039 beds and one state-owned licensed nursing home with 63 beds in Washington County. In addition there are eighteen privately-owned senior-assisted living facilities with a total of 713 beds. Other medical facilities include the Western Maryland Center, a 186 bed state-owned, rehabilitation and chronic care facility, and the Brook Lane Psychiatric Center, a privately-owned psychiatric facility. None of these facilities receives funds from the County.

Safety

Law Enforcement

The Washington County Sheriff's Office, the Maryland State Police, and municipal police services provide County police protection. The Sheriff's Office has eighty-five sworn personnel and eighty-five radio-dispatched vehicles. The Sheriff's Office is responsible for the operation of the Detention Center, which has a capacity of 452 inmates. The State Police has thirty-four troopers assigned to the local barrack, which is located just south of Hagerstown. The Hagerstown Police Department has a full-time force of 104 officers. In addition, the Hancock Police Department, Smithsburg Police Department, and the Boonsboro Police Department each employ four police officers in their respective departments.

Fire and Rescue

Fire and rescue protection is coordinated through the County's Division of Fire and Emergency Services. The division oversees the Emergency Communication/911 Center, Emergency Management, Fire Department Special Operations, Fire Department Support Services, and Emergency Medical Services Operations Program. In addition it coordinates the services provided by fourteen volunteer fire companies and eight volunteer ambulance companies throughout Washington County. The Division is led by a full-time career Director and has a staff of fifty-five FT/PT employees and approximately forty volunteers. All volunteer companies belong to the Washington County Volunteer Fire and Rescue Association ("WCVFRA"). WCVFRA has approximately seven hundred volunteers that provide a combination of firefighting, rescue, and administrative services to the community. Several volunteer companies have hired career personnel to supplement the volunteer staff during times of low volunteer availability.

Fire protection within the City of Hagerstown is provided by a combination career and volunteer fire department. The department includes six stations with five engines and two ladder trucks. The department is led by a career Fire Chief and six shift commanders. The department has sixty-five full-time career firefighters and forty-three trained volunteer firefighters.

Emergency Management

Emergency management activities include mitigation, planning, response and recovery from natural and technical disasters. Washington County has a Local Emergency Planning Committee that coordinates disaster planning, conducts drills to exercise the County Emergency Operations Plan, and oversees a community outreach program consisting of home chemical safety training, citizen preparedness, and pertinent educational programs.

Solid Waste

The Washington County Solid Waste Department is responsible for a solid waste disposal system that protects the environment and public health. The opening of the 40 West Landfill assures the County will meet its estimated disposal needs for the next fifty plus years. The Department operates five solid waste convenience centers and numerous residential recycling drop sites that are strategically located throughout Washington County. Supporting and strengthening individual and community self-reliance and responsibility in the areas of waste reduction, recycling, and proper disposal of solid waste is the mission of the Solid Waste Department. The Department operated as a special revenue fund until fiscal year 2002, when it was reclassified as an enterprise fund.

Water Supply and Sewerage Facilities

The County has a master water and sewer plan, which assigns service priority designations for all areas within Washington County. These designations range from "No Planned Service" to "Existing and Under Construction". The plan serves as a guide for the orderly development and expansion of water and sewerage facilities, both within Washington County and in those incorporated municipalities owning and operating their own systems, requiring the County or incorporated municipality to obtain a proper service designation before constructing or expanding water or sewer services.

GOVERNMENT AND ADMINISTRATION

The County is authorized to provide public water and sewer service to areas outside the incorporated municipalities and may provide service within the municipal corporations of Washington County with the consent of the municipality. The County currently provides water and/or sewer services to nearly all of the immediate densely populated area surrounding the City of Hagerstown (except the Dual Highway corridor), the areas of Highfield, Elk Ridge, Sandy Hook, and the towns of Sharpsburg and Smithsburg. The incorporated municipalities of Hagerstown, Boonsboro, Clear Spring, Funkstown, Hancock, Keedysville, Smithsburg and Williamsport all own their own water/wastewater facilities, or portions thereof. In addition to providing the sewer service described above, the County operates the water and sewer systems for the town of Clear Spring.

Based on the recommendation of its engineering consultant, Black & Veatch, effective July 1, 1996 the County consolidated the then existing water and sewer service areas into one water and one sewer service area. In addition to this consolidation, and also effective July 1, 1996, annual water and sewer user rates were made uniform in each service area and overall annual water and sewer user rates were increased an average of 23%. Rate increases have ranged between 2% and 7% since fiscal year 1997. Several years there were no increases in water rates and one year there were no increases in sewer rates. Additional increases are planned. See "FINANCIAL INFORMATION—Department of Water Quality" herein.

Five treatment plants serve the water system with an aggregate capacity of 419,000 gallons per day, with individual plant capacities from 4,000 to 230,000 gallons per day. The sewer system is served by five treatment plants with an aggregate capacity of 5,393,000 gallons per day, with individual plant capacities from 30,000 to 4.1 million gallons per day. The County completed the upgrade of the Conococheague Treatment Plant for the biological nutrient removal process in November 2001. The County is in the process of upgrading its wastewater facilities to comply with the State's enhanced nutrient removal strategy.

Usage of water and sewer systems is measured in Number of Services and Number of Equivalent Dwelling Units ("EDUs"). Number of Services refers to the number of actual connections and EDU is a unit of measure which equates the consumption, or flow of commercial or industrial connections, to the average flow of a residential dwelling unit.

The County bills its customers quarterly except for those for which sewer treatment service is provided by the City of Hagerstown, in which case the County's charges are billed and collected on its behalf by the City of Hagerstown. The following table shows the total Number of Services and EDUs of the County's water and sewer systems and the annual residential user rates effective July 1, 2006. For customers receiving County collection services only, treatment is provided by the City of Hagerstown.

WATER SYSTEM

	No. of	No. of	Residential
	Services	EDUs	Annual (Avg)
	Services	EDUs	User Rate
Full Service.....	<u>1,223</u>	<u>1,559</u>	\$474.40

SEWER SYSTEM

	No. of	No. of	Residential
	Services	EDUs	Annual (Avg)
	Services	EDUs	User Rate
Full Service	6,396	9,953	\$430.80
Collection Service Only	3,230	4,337	\$193.80
Total.....	<u>9,626</u>	<u>14,290</u>	

Source: Washington County Department of Budget and Finance

In addition, the County provides sewage “treatment only” services to the towns of Williamsport and Smithsburg, as well as the Conococheague Pretreatment Facility (the “Pretreatment Facility”) and Fort Ritchie. The only major sewerage treatment facility for public use in Washington County other than those operated by the County is the Hagerstown Wastewater Treatment Plant, owned and operated by the City of Hagerstown, which has a capacity of 8.0 million gallons per day (“mgd”). It is currently being upgraded to handle 10.5 mgd.

The Pretreatment Facility serves all of Washington County by providing pretreatment of non-hazardous industrial wastewater, landfill leachate and metals-bearing waste streams, and has a capacity of 125,000 gallons per day (current average usage is 50,000 gallons per day). The Pretreatment Facility was privatized in 2006 through a long-term lease to a private corporation.

III. Economic and Demographic Information

Economic Development Commission

The Hagerstown-Washington County Economic Development Commission (“EDC”) is dedicated to expanding economic opportunities for the citizens of Washington County. It works to promote the County as a place of business and improve the overall business climate of the community.

The Board of Directors is comprised of twelve unpaid volunteers and six *ex-officio* members. As representatives of the local business community, the Board of Directors is responsible for evaluating, recommending, and implementing policies affecting the County’s ability to attract, nurture, and sustain employment, and further promote economic growth and change in a managed environment.

The EDC has a staff of six full-time employees to conduct the day-to-day operations of the office, with the Executive Director having been awarded the distinction of Certified Economic Community Developer. The staff works to fulfill the strategic priorities that are put in place by the EDC.

Throughout the year the EDC meets with representatives of existing companies in need of assistance. Discussions include appropriate funding programs, enterprise zone benefits, training, and other sources of business support. The EDC has formed strategic partnerships with such organizations as the Maryland Department of Business and Economic Development, the Tri-County Council for Western Maryland, the Small Business Development Center, the Western Maryland Consortium, and the Maryland Job Service in order to better serve the needs of businesses in Washington County.

The EDC distributes the following publications to promote economic development by providing current, relevant information to the business community: **Available Buildings and Sites Lists, Business & Industry Directory, Business Development Guide, Economic Data Summary, Annual Report** and **“Intersections”** – an EDC newsletter issued quarterly to provide general information to more than 940 allies and partners to promote economic development in Washington County.

The EDC maintains a web page, www.hagerstowncdc.org, an online reference guide for economic development allies, partners, site selection consultants, clients, and the general public. The site includes statistical data on Hagerstown-Washington County’s Community Demographics, Quality of Life, Business Climate, and Incentives. Online publications include the EDC’s **Economic Data Summary**, the **Business and Industry Directory**, and the quarterly newsletter and annual report. Visitors to www.hagerstowncdc.org can access a database that highlights available commercial/industrial buildings and sites within Washington County. The database includes each property’s pertinent information describing its development potential.

The EDC administers the Enterprise Zone Program, identifying eligible businesses that qualify for local real property tax credits and state income tax credits in the City of Hagerstown, the Town of Hancock, and elsewhere in Washington County. For tax year 2006-07, the City of Hagerstown and the County granted \$147,414 and \$861,170, respectively, in real property tax credits for private capital investment. The State of Maryland will reimburse \$73,707 to the City of Hagerstown and \$430,585 to the County for these credits.

Economic Development

New and Expanding Businesses

In 2006 the County experienced new and expanding businesses highlighted by the creation of more than 1,087 new jobs, known new investments of approximately \$121.2 million, and more than 830,000 square feet of space under construction. Many of these achievements are a result of incentive packages provided through partnerships of the County and State to provide training programs, State financing, and Enterprise Zone tax credits. Projects announced in 2006 and anticipated results for 2007 for those projects are noted in the following table:

Hagerstown-Washington County, Maryland -- Activity of Projects Announced in 2006

Company Name	Business Type	Expected Completion	Project Cost	# New Jobs	Type of Activity
COMPLETED PROJECTS: Announced in 2006					
Action Products	Medical Equipment & Supplies	3Q06	\$.98MM	n/a	expansion
Blue Seal Feeds, Inc.	Animal Food Products	3Q06	\$.58MM	8	lease
Bobcat of Hagerstown	Materials Handling Equipment	3Q06	n/a	6	lease
Bradco Supply Corp.	Construction Material Merchant	3Q06	\$.15MM	20	lease
Building Specialties	Construction Material Merchant	2Q06	n/a	14	lease
Eldorado Stone, LLC	Stone & Brick Veneer	3Q06	\$.25MM	30	lease
Extra Innings	Fitness & Recreational Sports Center	4Q06	\$.50MM	17	lease
FedEx Ground	Freight Transportation-Package Carrier	4Q06	n/a	122	jobs
Good Humor-Breyers Ice Cream	Ice Cream & Frozen Dessert	3Q06	\$7MM	52	expansion
Hagerstown Spring & Alignment	Repair & Maintenance	3Q06	\$1MM	30	expansion
Horizon Goodwill Industries	Vocational Rehab Services	3Q06	n/a	n/a	lease
Mountainside Teleport Corp.	Satellite Telecommunications	2Q06	\$15MM	n/a	equipment
On Going Operations	Data Center	1Q06	\$.01MM	5	lease
Pelican Life Sciences	Biotechnology Products	4Q06	\$.11MM	12	lease
Phoenix Color Corp.	Support Activities for Printing	4Q06	\$5MM	52	expansion/relocation
Rider Jet Center	Fixed Based Operation	3Q06	\$1.8MM	0	expansion
The Roof Center	Construction Material Merchant	3Q06	\$.10MM	20	lease
Rust-Oleum Corp.	Paint and Coating	3Q06	\$.28MM	0	lease
Save-A-Lot Foods	Wholesale grocery distribution	3Q06	\$1.36MM	20	expansion
Schindel-Rohrer Building	Spec Office Building	4Q06	\$4.05MM	n/a	renovation
Sierra Nevada Corp.	Aerospace Product & Parts	3Q06	n/a	126	jobs
Staples, Inc.	Office Products	4Q06	n/a	60	jobs
Stat MedEvac	Air Ambulance Services	2Q06	\$.20MM	20	renovation
Tractor Supply Company	Farm and Ranch Supplies	4Q06	n/a	38	jobs
UNDER DEVELOPMENT: Announced in 2006					
A.C.&T. Co., Inc.	Addition to Travel Center	2Q07	\$.83MM	n/a	expansion
Apparatus Repair & Engineering	Electronic/Precision Equipment Repair	2Q07	\$1.87MM	20	relocation/renovation
B.J.s Custom Creations	Services Related to Advertising	2Q07	\$1.8MM	15	expansion
Chevy Chase	Commercial Banking	1Q07	\$.60MM	n/a	new construction
Delta Hosiery Building	Spec Office Building	4Q07	\$.48MM	n/a	renovation
Dot Foods, Inc.	Dry, Refrigerated & Frozen Foods	2Q07	\$10MM	100	expansion
Falcon Air Service, Inc.	Air Transportation-Charter Service	4Q07	\$1.25MM	6	new construction
First United Bank & Trust	Commercial Banking	1Q07	\$1MM	6	new construction
Homewood Suites by Hilton	Hotel (103 rooms)	3Q07	\$14.6MM	30	new construction
Item International	Aluminum Extrusion Products	1Q07	\$.25MM	7	lease
Landmark Equipment	Outdoor Power Equipment	1Q07	\$3.5MM	n/a	new construction
Lyles Ventures Building	Spec Office Building	2Q07	\$7.3MM	n/a	new construction
Makia LLC	Medical Office Buildings	n/a	\$5.9MM	n/a	new construction
New England Motor Freight	General Freight Trucking, LTT	3Q08	\$13.5MM	46***	new construction
Olive Garden	Full-service restaurant	4Q07	\$1.1MM	150	new construction
Opal Court Medical	Medical Offices	n/a	\$1.6MM	n/a	new construction
Orrstown Bank	Full-service banking	1Q07	\$1.5MM	10	new construction
Radio Shack Distribution Center	Consumer Electronics	2Q07	\$1.3MM	45	renovation
Rider Jet Center	Corporate Hangar	1Q07	\$7MM	n/a	new construction
Technical Innovation Center	Wet Laboratories	3Q07	\$1.3MM	n/a	expansion
Zenith Construction	Office Buildings	n/a	\$6.1MM	n/a	new construction
Totals for PROJECTS Announced in 2006:			\$121.15MM	1,087	

Source: Hagerstown-Washington County Economic Development Commission

Business Parks and Sites

Through the EDC, the County promotes the development of both private and non-profit business parks and sites by participating in the extension of necessary utilities. The local government successfully obtained financing for infrastructure through various State and Federal agencies during the last decade and has established many locations for new and expanding businesses. The County offers prospective businesses a selection of sites in planned industrial/business parks, which include:

<u>Park</u>	<u>Total Acreage</u>	<u>Available Acreage</u>	<u>Ownership</u>
Airport Enterprise Zone:			
Washington County Business Airpark	67	60	County
City of Hagerstown—Washington County			
Enterprise Zone:			
Valley Business Park	188	125	Private
Other Locations:			
Westgate Industrial Complex	175	175	Private
Gateway Business Park.....	65	34	Private
Hunter's Green Business Center	631	187	Private
Newgate Industrial Park.....	245	63	Nonprofit
Airport Business Park	33	33	Nonprofit
Friendship Technology Park.....	450	375	Private
Hancock Industrial Park.....	38	38	Town
Interstate Industrial Park	416	10	Nonprofit

Source: Hagerstown-Washington County Economic Development Commission

New Job Tax Credit Program

The “New Jobs Tax Credit” is a program initiated by the County in November 2002. The credit was created to help attract companies to the local business community that are involved in a high-tech industry and that offer well-paying jobs. The program provides a six-year tax credit for businesses that either expand or relocate in Washington County and qualify under the program’s guidelines. The credit applies to Washington County’s real property tax that is imposed on real property owned or leased by the business and on personal property owned by that business.

Enterprise Zones

Approximately 3,600 acres in Washington County are within three State-designated Enterprise Zones. Local and state incentives are available to new or expanding companies in these zones to promote growth of the industrial and commercial base. Qualified businesses can receive local property tax credits for capital investment and state income tax credits for the creation of new jobs. Each Enterprise Zone is approved by the State for a ten year period.

Foreign Trade Zone

Washington County’s Foreign Trade Zone (“FTZ”) status was approved by the United States Department of Commerce’s Foreign Trade Zone Board on July 3, 2002. More than 1,866 acres from seven different sites throughout Washington County are eligible. The sites are ideally zoned for manufacturing, distribution, and warehousing activities. FTZs have shown to provide direct benefits to local businesses involved in foreign trade. Through the reduction, elimination, and deferral of tariffs, firms located within Washington County’s FTZ are able to be more competitive in international markets.

Utilities, Transportation and Communication

Utilities

Electricity: Allegheny Energy serves Washington County with a system of transmission and distribution lines of various voltages connected to its generating stations. The City of Hagerstown distributes electricity to many parts of the City.

Telecommunications: State-of-the-art communications infrastructure, including digital, fiber optic, wireless data, and cellular technologies are provided via public and private local and regional vendors. AT&T(Cingular), CellularOne, Nextel, Sprint, T-Mobile, US Cellular, and Verizon operate within Washington County.

Natural Gas: Columbia Gas of Maryland serves the area with natural gas. Propane is also readily available.

Transportation

Highways: Washington County is served by Interstate Highways I-81, I-70, and I-68 complemented by U.S. 40, and U.S. 11, and State Routes 60, 64, 65 and 68. These highways put Washington County businesses within a day's drive of one-third of the U.S. population and half of all retail trade. The Baltimore and Washington, D.C. beltways are an hour's drive from central Washington County.

Air: Hagerstown Regional Airport (HGR), a Primary, Part 139 Facility, offers daily passenger service to Pittsburgh (PIT) by US Airways. Corporate and Military aircraft services, charter, freight, fixed base operation and other services are available through the airfield's twenty-plus businesses. The airport is part of the Washington County Foreign Trade Zone and is located in a County Enterprise Zone. In addition, Dulles International (IAD), Baltimore/Washington International (BWI), and Ronald Reagan Washington National Airport (DCA) are located within seventy miles of Hagerstown.

Rail: CSX Transportation and Norfolk Southern Corporation Railways provide economical shipment anywhere on the Atlantic seaboard. CSX, with a public siding, operates daily trains and connects with other major carriers for long-distance shipping. The Norfolk Southern mainline is just outside of Hagerstown and a CSX interchange with Norfolk Southern is in Hagerstown for nationwide access. Daily Amtrak and weekday MARC passenger services are available from Martinsburg, WV (twenty-three miles south of Hagerstown). MARC passenger service from neighboring Frederick County to Washington, DC is also available.

Local Transportation: Washington County Commuter provides local bus service throughout Washington County. Greyhound Bus Lines and two bus charters provide service to points outside of Washington County. Local taxi service and auto rental and leasing services are available within Washington County.

Communication

Newspapers: Two daily newspapers (The Morning Herald and The Daily Mail, with a total circulation of 35,318) and two other newspapers (The Hancock News, with a weekly circulation of 2,600 and The Picket News, with a weekly circulation of 20,000) service Washington County. Several metropolitan newspapers, including the Washington Post and The Baltimore Sun, are also available daily to residents.

Television: NBC 25 (WHAG), provides local news, weather, community information, sports coverage and programming to the tri-state area. Antietam Cable Television offers cable and digital television services. Satellite television is available through private vendors.

Internet: There are numerous private vendors providing local dial-up and high speed internet access. The Washington County Free Library provides access to the Internet through SAILOR, the State of Maryland's Online Public Information Network. SAILOR may be accessed at any library branch or through personal computer/modem by dialing the library's online catalog at 301-739-7600. Information about Washington County, including economic data, can be accessed on the World Wide Web:

www.washco-md.net (Washington County)

www.hagerstownmd.org (City of Hagerstown)

www.washcolibrary.org/ (Washington County Free Library)

Demographic Information

Population

The following table illustrates the population growth of Washington County, the State of Maryland, and the United States from 1970 to 2006.

Population Growth

Year	<u>Washington County</u>		<u>State of Maryland</u>		<u>United States</u>	
	Population	Percent Change	Population	Percent Change	Population	Percent Change
1970	102,829	—	3,924,000	—	203,302,000	—
1980	113,086	9.9	4,216,000	7.4	226,505,000	11.4
1990	121,393	7.3	4,781,468	13.4	249,633,000	10.2
2000	131,923	8.7	5,296,486	10.8	281,421,906	12.7
2006	143,748	9.0	5,615,727	6.0	299,398,484	6.4

Source: Bureau of the Census. U.S. Department of Commerce for 1970, 1980, 1990, and 2000; 2006 estimates for Washington County, the State of Maryland, and the United States by the Bureau of the Census, U.S. Department of Commerce.

Income

Median household Effective Buying Income (“EBI”) in Washington County was \$38,851 for the year 2005. The median household EBI for Washington County, the State of Maryland and the United States are estimated to be as follows:

Median Household Effective Buying Income

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Washington County	\$38,851	\$37,123	\$35,717	\$35,311	\$34,068
State of Maryland	48,803	47,062	45,879	45,023	45,886
United States	40,529	39,324	38,201	38,035	38,365

Source: Sales & Marketing Management 2002, 2003, 2004, 2005 Surveys of Buying Power and Media Markets; and 2006 Demographics USA®, a publication of ACNielsen Trade Dimensions, Wilton, CT.

Comparative statistics relating to the distribution of 2005 EBI are presented in the following table:

2005 Distribution of Effective Buying Income

Households By EBI Group	<u>Washington County</u> Percent	<u>State of Maryland</u> Percent	<u>United States</u> Percent
Under \$25,000	28.6	20.3	27.6
25,000-49,999	37.3	31.3	34.2
50,000-74,999	21.3	23.3	20.3
75,000 and over	12.9	25.1	17.9

Source: 2006 Demographics USA®, a publication of ACNielsen Trade Dimensions, Wilton, CT.

Area Labor Supply

Washington County has an available civilian labor force of approximately 69,700. In addition, businesses can pull workforce from Allegany and Frederick counties in Maryland; Franklin and Fulton counties in Pennsylvania; and portions of Berkeley, Jefferson and Morgan counties in West Virginia. The civilian labor force for all these counties total more than 390,000.

Employment

Within Washington County there are approximately 3,300 businesses providing employment opportunities. The following table shows the employment statistics for the fifteen largest employers in Washington County, as of January 2007.

<u>Employer</u>	<u>Employment</u>
Washington County Public Schools	2,750
Washington County Health System, Inc.....	2,738
State of Maryland.....	2,538
Citicorp Credit Services, Inc.....	2,470
First Data Merchant Services	2,163
Volvo Powertrain North America	1,698
Washington County Government	1,000
Staples Distribution Center	760
Hagerstown Community College.....	684
Federal Government.....	671
FedEx Ground.....	522
Good Humor-Breyer's Ice Cream, Inc.....	520
Phoenix Color Corporation.. ..	509
City of Hagerstown.....	494
Horizon Goodwill Industries.....	425

Source: Hagerstown-Washington County Economic Development Commission

Unemployment Rate

Unemployment in Washington County has averaged 4.6% over the 5 years 2002 to 2006. The following table indicates the County's average unemployment rate as compared with the State of Maryland for the years 2002 through 2006:

	Unemployment Rate – Annual Average				
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Washington County	4.3%	4.3%	4.5%	5.0%	4.9%
State of Maryland	3.8%	4.1%	4.3%	4.5%	4.5%

Source: Maryland Department of Labor, Licensing and Regulation
2006 data are not seasonally adjusted.

Construction Activity

Construction activity in Washington County is indicated by the following statistics:

Building Permits
(Value in Thousands)

Year Ended Dec. 31	Residential New		Other Permits		Total	
	Number	Value	Number	Value	Number	Value
2006	505	\$ 96,849	3,231	\$ 101,479	3,736	\$ 198,328
2005	944	171,678	4,695	305,879 ⁽¹⁾	5,639	477,557
2004	811	134,340	4,472	150,082	5,283	284,422
2003	817	139,845	3,731	37,689	5,006	177,534
2002	801	115,356	4,257	51,162	5,058	166,518

Source: Washington County Department of Permits and Inspection

(1) Significant increase due to several multi-million dollar projects.

Housing Starts

The number of housing starts for the past five years is listed below:

Year Ended December 31	Single Family (One and Two-Unit Structures)
2006.....	347
2005.....	817
2004.....	714
2003.....	712
2002.....	748

Source: Washington County Department of Permits and Inspections

Agriculture

Agriculture is an important part of Washington County's economy. Approximately 125,159 of Washington County's 293,223 acres (42.7%) are considered farmland by the Maryland Agricultural Statistical Service. By far the greatest contributor to agriculture is the livestock and dairy industries. Livestock and dairy products account for approximately 78% of the total farm sales.

Washington County is the heart of the fruit industry in Maryland. Apple and peach growers harvest over 190,000 trees annually producing approximately half million bushels of apples, accounting for 60% of the State's apple crop and over 70,000 bushels of peaches, accounting for 35% of the State's peach crop each year. Dairying is the principal livestock enterprise. The average number of milk cows is 16,000 head, ranking second in the state. In addition to milk and fruit, the other chief agricultural commodities are cereal grains. Selected agricultural statistics for Washington County calendar year 2002 are as follows:

Washington County Agriculture Statistics

Number of Farms.....	775
Average acres/farm.....	161
Total farm income.....	\$59.6 mil
Livestock income.....	\$46.8 mil
Average income/farm.....	\$76,874

Source: U.S.D.A. Agriculture Census 2002

The U.S.D.A. conducts a census every five years. Updated information will be available with the 2007 Census.

IV. Financial Information

Accounting System

The accounts of the County are organized on the basis of funds, each of which is considered a separate fiscal and accounting entity. The financial position and operations of each fund are accounted for with a self-balancing set of accounts, recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Fund Structure

The revenues and receipts of the County are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent. The various funds are identified in the financial statements of the County. The fund types used by the County are Governmental Funds (General, Special Revenue and Capital Projects), Proprietary Funds (Enterprise and Internal Service) and Fiduciary Funds (Trust and Agency). Details of the County's fund structure are set forth in the notes to the financial statements.

The County's general fixed assets and general long-term obligations are reported in the applicable governmental or business-type activity columns in the government-wide financial statements.

Basis of Accounting, Measurement Focus, and Financial Statement Presentation

Basis of accounting refers to the time at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of the County conform to generally accepted accounting principles as applicable to governments.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements for the General Fund, Special Revenue Fund and Capital Projects Fund are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

Accounting Enterprise System

The County utilizes an integrated financial, human resource, and budget enterprise system. This enterprise system has a web-based platform that streamlines workflow, which allows the County to automate numerous processes including real-time reporting. All County departments have access to the system for requisitioning, reporting, and inquiries for information concerning accounts and project status at anytime. The system provides an excellent means for control of finances, and allows for efficient use of resources. It also promotes accountability by generating timely reports and allowing budgetary controls for management.

Distinguished Budget Presentation Award

The County received the Distinguished Budget Presentation Award for its 2006 Budget Document from the Government Finance Officers Association. The award is given to those entities that satisfy nationally recognized guidelines for effective budget presentation. Those guidelines are designed to assess how well an entity's budget serves as a policy document, a financial plan, an operations guide, and a communication device. The County has received the award for three consecutive years. The award reflects the commitment of the County to meet the highest standards in governmental budgeting.

Budget Process and Schedule

The County's budgetary practices focus on long-term financial planning to ensure that budget decisions are understood over multiple years and to assess whether program and service levels can be sustained over those years. Practices require the development of organizational goals, policies, and procedures to achieve the goals, and making the allocation of resources available to accomplish the goals.

The County's budget process is key to its long-range strategic plan. With the adoption phase ending in May, the entire budget process encompasses nine months in preparation time. Financial forecasts, economic trends, policy reviews, and citizen input are all part of this process and result in the development of the operating and capital budgets for the year. The following describes the phases of the budget process.

Financial Capacity and Analysis Phase

The County develops statistical analysis of major revenue sources through various available resources. The County prepares and annually updates a long-range (five year) financial forecasting system which includes projections of revenues, expenditures, future costs, and financing of capital improvements that are included in the Capital Improvement Budget, Cost of Service Plans, and the Operating Budget.

Revenue estimates are monitored to identify any potential trends, which would significantly impact the various revenue sources. The County reviews current construction trends, the number of building permits, mortgages rates, and other economic data that can impact revenue collections.

The County uses other financial modeling techniques that impact the long-term operations and rates for the Water Quality and Landfill Enterprise Funds.

The County annually undertakes a detailed analysis of its financial position. The County then plots and converts its financial position into certain financial ratios and then examines its performance trend. Most of the financial trend analysis includes peer group median and historical data. Trend indicators are tracked for specific elements of the County's fiscal policies for evaluation.

Debt capacity is evaluated on an annual basis prior to the adoption of the Capital Improvement Budget. The County examines statistical measures to determine debt capacity and creates ratios which it compares to the ratios of other counties within its peer group, rating agency standards, and Washington County's historical ratios to determine debt affordability.

The economic and financial trend analysis is an integral part of the County's decision-making process that includes short and long-term forecasts. The County's current financial condition as well as future financial capacity, long-range plans, and future goals and visions are evaluated. During this phase forecasting assumptions, policy and reserve reviews, compensation adjustments, and inflation assumptions are made.

Budget Development Start

The development of the budget starts with the distribution of the budget packets to departments and agencies. This includes both operating and six-year capital improvement budgets. The packets include instructions on completing the packet, due dates, and updated information on budgetary numbers, personnel positions, and goals.

Budget Development Phase

Capital Improvement Budget development begins in the winter after the development of the debt capacity and financial trend and economic trend analysis. The Capital Improvement Program (CIP) provides a comprehensive approach to planning and impacts all facets of County operations. The County Administrator, the Finance Director, the Planning Director, and the Director of Public Works comprise the Capital Improvements Program Committee (“CIP Committee”). From the time the CIP’s initial annual review begins in October through its adoption in May of each fiscal year, there is constant interaction between departments, the CIP committee, and the elected officials. This effort is characterized by cooperation and reflects a common goal of ensuring that the CIP meets the objectives of the County and remains affordable and achievable.

The CIP is reviewed in conjunction with the annual debt affordability analysis, with revenue projections inclusive of rate analysis, in order to determine funding availability. A financial analysis of funding sources and project costs is conducted for all proposed capital improvement projects.

It is the CIP Committee’s responsibility to review all requests that County departments and agencies submit. Based on current and future needs, as developed in the six-year capital plan, and available funding sources, the CIP Committee determines which capital projects best meet established criteria for the current fiscal year Capital Improvement Budget and the five-year forecast. Operating impacts of current and proposed capital projects are also taken into consideration by staff when developing their Capital Improvement Budget.

Operating Budgets represent existing service levels and two years of prior historical information. Departments and agencies request funding for the upcoming fiscal year. Any increases in program and services require justification, as do all capital outlay requests. These requests are summarized with projected funding shortfalls or overruns calculated.

Review/Modification Phase

The County Administrator presents the Operating and Capital Improvement Budgets to the Board. Preliminary recommendations are reviewed to ensure that preliminary budgets address the County’s goals and fiscal management policies. The County Administrator and the Finance Director work with the Commissioners on the proposed budget documents for adoption.

Adoption Phase

Proposed budgets are voted on by the Board to take to a public hearing to communicate to the general public for all operating and capital funds. Advertisement is done in the local newspaper, handouts, and on the County web site. Documents and handouts are prepared for the public.

Public hearings are held on the proposed budgets along with the current tax levy. A ten day waiting period is held for public comment. Local law requires a balanced budget to be adopted by July 1st.

Start Up

Department managers are responsible for their budgets throughout the fiscal year. Expenditure percentages are calculated and compared to budget. Corrective action, if necessary, is taken if serious negative trends exist. Management and the Board have real-time budgeting reports available on-line, as well as up-dates on major events and/or issues.

The County’s Operating Budget is adopted at the program/service level and the Capital Improvement Budget is adopted at the project level. Transfers between programs or projects in excess of \$25,000 require Board approval. Any transfer out of contingency requires the approval of the Board.

The Finance Director reviews the project status and revenues before any issuance of debt. Any modification to a project and or the total debt to be issued based upon this review is required to be approved by the Board either for an increase or decrease in total borrowing amount or for a change in the total borrowing source.

General Fund Revenues and Expenditures

The General Fund’s major function is to provide funding for education, public safety, courts, planning, permits, public works, parks and recreation, general operations, and economic development. The major revenue sources to provide these programs and services for the public are: Real and Personal Property Tax, Income Tax and Recordation Tax. The following table indicates the County’s General Fund actual revenues and expenditures compared to the final budget for fiscal year 2006 and budgeted revenues and expenditures for fiscal year 2007.

**County Commissioners of Washington County
Budget Comparison
General Fund
Fiscal Years 2006 and 2007**

	Fiscal Year 2006		Fiscal Year 2007
	Final Budget	Actual Amounts	Original Budget
REVENUES			
Property Tax			
Real Property Tax.....	\$ 76,316,150	\$ 78,301,949	\$ 87,072,850
Personal Property Tax.....	11,527,370	11,884,523	11,327,000
Property Tax Interest Income.....	375,000	375,165	375,000
Other Property Tax.....	654,000	738,034	695,580
Property Tax Discounts and Credits.....	(1,790,000)	(4,907,060)	(2,642,000)
Total Property Taxes.....	<u>\$ 87,082,520</u>	<u>\$ 86,392,611</u>	<u>\$ 96,828,430</u>
Other Local Taxes			
Income Tax.....	\$ 56,980,000	\$ 61,857,188	\$ 60,000,000
Admissions and Amusement Tax.....	340,000	406,003	350,000
Recordation Tax.....	8,393,222	12,572,141	9,000,000
Trailer Tax.....	390,000	388,878	390,000
Hotel/ Motel Tax.....	660,000	750,919	700,000
Total Other Local Taxes.....	<u>\$ 66,763,222</u>	<u>\$ 75,975,129</u>	<u>\$ 70,440,000</u>
Other Revenues			
Licenses and Permits.....	\$ 1,673,886	\$ 1,736,817	\$ 2,549,740
Court Costs and Fines.....	274,510	225,440	252,730
Charges for Services.....	702,000	580,146	771,100
Revenues from Use of Property.....	2,208,600	5,543,264	3,395,800
Reimbursed Expenses.....	657,385	540,482	601,940
Miscellaneous Revenues.....	267,332	378,689	641,450
Grant and Shared Revenues.....	5,076,382	4,809,246	2,510,300
Total Other Revenues.....	<u>\$ 10,860,095</u>	<u>\$ 13,814,084</u>	<u>\$ 10,723,060</u>
TOTAL REVENUES.....	<u>\$ 164,705,837</u>	<u>\$ 176,181,824</u>	<u>\$ 177,991,490</u>
EXPENDITURES			
General Government.....	\$ 17,643,912	\$ 15,777,604	\$ 16,807,430
Public Safety.....	22,144,360	21,882,781	25,154,905
Health.....	2,193,364	2,192,664	2,384,744
Social Services.....	1,093,005	1,153,144	1,240,207
Education.....	90,457,492	90,449,992	93,220,930
Parks, Recreation, and Culture.....	4,447,318	4,322,750	4,803,774
Conservation of Natural Resources.....	462,306	468,085	462,648
General Operations.....	817,740	740,270	1,488,200
Unallocated Employee Insurance and Benefits.....	115,280	(428,603)	1,922,540
Intergovernmental.....	12,849,822	23,036,302	17,877,240
Debt Service.....	12,481,238	10,565,211	12,628,872
TOTAL EXPENDITURES.....	<u>\$ 164,705,837</u>	<u>\$ 170,160,200</u>	<u>\$ 177,991,490</u>
EXCESS OF REVENUES AND OTHER SOURCES.....	<u>\$ -</u>	<u>\$ 6,021,624</u>	<u>\$ -</u>
OVER EXPENDITURES			

Source: Washington County Department of Budget and Finance

The following table indicates the County's General Fund revenues and expenditures for fiscal years 2002 through 2006.

County Commissioners of Washington County
Statement of Revenues, Expenditures and Changes in Fund Balance
General Fund
Year Ended June 30

	2006	2005	2004	2003	2002
Revenues:					
Taxes, interest and penalties	\$ 162,593,180	\$ 149,995,219	\$ 139,266,432	\$ 130,128,911	\$ 124,390,902
Shared taxes and grants	4,809,246	5,973,398	3,834,026	3,504,785	3,120,221
Licenses and permits	1,736,817	1,729,154	1,439,819	1,448,298	1,328,601
Revenues from use of money and property	5,543,264	2,341,213	1,272,907	1,631,645	1,917,510
Charges for services	580,146	582,404	633,558	354,044	648,623
Other revenue	919,171	1,242,716	1,229,226	1,258,365	1,033,324
Total revenues	<u>\$ 176,181,824</u>	<u>\$ 161,864,104</u>	<u>\$ 147,675,968</u>	<u>\$ 138,326,048</u>	<u>\$ 132,439,181</u>
Expenditures:					
General government	\$ 15,777,604	\$ 15,919,011	\$ 14,447,700	\$ 13,551,805	\$ 12,509,415
Public safety	21,882,781	19,769,329	18,345,498	17,045,778	16,403,394
Health	2,192,664	1,802,174	1,802,583	1,802,474	1,802,474
Social services	1,153,144	1,281,971	871,721	864,703	883,623
Education	90,449,992	85,980,778	81,517,409	78,494,712	75,990,335
Recreation and culture	4,322,750	3,782,524	3,488,675	3,394,562	3,394,587
Conservation of natural resources	468,085	334,551	310,667	308,152	329,450
Intergovernmental	1,420,791	1,308,165	1,297,381	1,166,737	1,088,950
General operations	311,667	1,810,556	1,466,456	983,242	1,715,167
Debt service:					
Principal	7,351,311	6,904,988	7,336,002	7,088,661	6,691,541
Interest	3,213,900	4,039,140	4,175,663	4,092,412	4,216,311
Total Expenditures	<u>\$ 148,544,689</u>	<u>\$ 142,933,187</u>	<u>\$ 135,059,755</u>	<u>\$ 128,793,238</u>	<u>\$ 125,025,247</u>
Excess of revenues over expenditures	<u>\$ 27,637,135</u>	<u>\$ 18,930,917</u>	<u>\$ 12,616,213</u>	<u>\$ 9,532,810</u>	<u>\$ 7,413,934</u>
Other financing sources(uses):					
Net bond proceeds	\$ -	\$ 1,168,978	\$ 211,878	\$ -	\$ 653,059
Proceeds of capital leases	0	0	-	-	513,855
Transfer of Inmate Welfare Fund to Special Revenue Fund	0	0	-	(65,623)	-
Operating transfers out	(21,615,511)	(15,655,170)	(8,874,379)	(6,612,776)	(7,504,902)
Total other financing sources(uses)	<u>\$ (21,615,511)</u>	<u>\$ (14,486,192)</u>	<u>\$ (8,662,501)</u>	<u>\$ (6,678,399)</u>	<u>\$ (6,337,988)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 6,021,624</u>	<u>\$ 4,444,725</u>	<u>\$ 3,953,712</u>	<u>\$ 2,854,411</u>	<u>\$ 1,075,946</u>
Fund balances at beginning of year	25,844,058	21,399,333	17,445,621	14,591,210	13,515,264
Fund balance at end of year	<u>\$ 31,865,682</u>	<u>\$ 25,844,058</u>	<u>\$ 21,399,333</u>	<u>\$ 17,445,621</u>	<u>\$ 14,591,210</u>
Fund Balance:					
As a percent of revenue	18.1%	16.0%	14.5%	12.6%	11.0%
As a percent of expenditures	21.5%	18.1%	15.8%	13.5%	11.7%
Unreserved and undesignated fund balance:					
As a percent of revenue	\$ 403,715	\$ 325,816	\$ 1,920,432	\$ 496,983	\$ 411,238
As a percent of revenue	0.2%	0.2%	1.3%	0.4%	0.3%
As a percent of expenditures	0.3%	0.2%	1.4%	0.4%	0.3%
Debt Service:					
As a percent of revenue	\$ 10,565,211	\$ 10,944,128	\$ 11,511,665	\$ 11,181,073	\$ 10,907,852
As a percent of revenue	6.0%	6.8%	7.8%	8.1%	8.2%
As a percent of expenditures	7.1%	7.7%	8.5%	8.7%	8.7%

Source: Washington County Department of Budget and Finance

Sources of Tax Revenue

Ad valorem property taxes, the County's largest source of tax revenues, were 53.2% of total tax revenues in both fiscal year 2005 and in fiscal year 2006. During the same period, income tax revenues as a percentage of all tax revenues were 38.0% of the total tax revenues in fiscal year 2005 and 38.1% in fiscal year 2006. The following table presents the County's tax revenues by source for each of the last five fiscal years.

Tax Revenues by Source

Fiscal Year Ended June 30	Total Taxes	Local Property Taxes⁽¹⁾	Local Income Taxes	Other Local Taxes⁽²⁾
2006	\$ 162,367,740	\$ 86,392,611	\$ 61,857,188	\$ 14,117,941
2005	149,995,219	79,793,430	57,027,615	13,174,174
2004	139,266,432	75,496,283	53,285,436	10,484,713
2003	130,128,911	73,058,503	49,290,525	7,779,883
2002	124,249,956	70,267,365	47,557,419	6,425,172

Source: Washington County Department of Budget and Finance

(1) Includes payments in lieu of taxes, additions and abatements, interest on taxes, discounts on taxes and tax credits for the elderly and disabled.

(2) Includes trailer court fees, recordation taxes, admission and amusement taxes and hotel/motel taxes.

Local Property Taxes

Property valuations and assessments are determined by the Maryland Department of Assessments and Taxation, which maintains local offices in Baltimore City and each county. For State and County real property tax purposes real property is valued at full cash value ("Value"). All property is physically inspected once every three years and any increase in Value arising from such inspection is phased in over the ensuing three taxable years in equal annual installments.

For tax year beginning July 1, 2001, property tax rates were applied to 100% of the value of real property. The County and municipal rates applicable to all personal property and operating real property of public utilities are 2.5 times the property tax rate for real property.

Tangible personal property is generally assessed at cost, less depreciation for each year held to a minimum of 25%. For most categories of personal property, depreciation is 10% per year subject to the minimum assessment of 25% of cost.

State law provides a credit against State, local and municipal real property taxes on certain owner-occupied residential property. The tax credit for each tax year is computed by multiplying the State, local or municipal real property tax rate by the amount by which (i) the current year's assessment on residential property exceeds (ii) the homestead percentage multiplied by the previous year's assessment. The State homestead percentage is 110%. The counties and municipalities set their own respective homestead percentage, but the credit percentage may not exceed 110% for any taxable year. The County has adopted a homestead percentage of 105% for the fiscal year beginning July 1, 2006.

The State also provides a tax credit based on the ability of homeowners to pay property taxes. The credit is calculated by use of a scale, which indicates a maximum tax liability for various income levels. This tax credit for local property taxes for Washington County for fiscal year 2006 was \$ 1,221,602 and the projected credit for fiscal year 2007 is \$1,307,423.

Pursuant to State law, the Board may grant a property tax credit against the County property tax imposed on, among other categories of property, certain property owned by nonprofit civic associations and real property that is subject to the County's agricultural land preservation program. Manufacturing and commercial inventories of businesses are exempt from County tax.

Assessed Value, Tax Rates and Tax Levy

The following table sets forth the assessed value of all taxable property in Washington County for each of its five most recent fiscal years and the County and State tax rate applicable in each of those years. Assessed value of tax-exempt properties owned by Federal, State and County governments, churches, schools, fraternal organizations, cemeteries, disabled veterans and the blind, aggregating \$ 1,193,550,616 for the fiscal year ended June 30, 2006, is not included in the table. Under applicable law, there is no limit to the total tax levy for property taxes. In the opinion of the County, the tax rate established by it for each fiscal year, when applied to the property subject thereto, is sufficient to provide revenues to discharge the County's obligations to pay principal and interest maturing on its outstanding general obligation indebtedness in each fiscal year.

**Assessments and Tax Rates of all Property by Class
Fiscal Years Ended June 30
(Stated in Thousands)**

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Real property.....	\$9,475,071	\$8,246,223	\$7,191,416	\$6,439,001	\$6,237,397
Personal property:					
Individual.....	13,958	13,450	13,462	13,431	14,730
Railroads and public utilities.....	167,710	158,545	171,508	219,254	240,019
Business corporations.....	310,712	309,623	313,820	303,058	304,095
Total property	<u>\$9,967,451</u>	<u>\$8,727,841</u>	<u>\$7,690,206</u>	<u>\$6,974,744</u>	<u>\$6,796,241</u>
County tax rate (per \$100 assessed value).....	\$.948	\$.948	\$.948	\$.948	\$.948
State tax rate (per \$100 assessed value).....	.112	.132	.132	.084	.084

Source: Maryland State Department of Assessments and Taxation

Market Value

The market value of property in Washington County has increased over the last five years as illustrated in the following table.

**Market Value Trend
(Stated in Thousands)**

<u>Fiscal Year Ending June 30</u>	<u>Market Value</u>	<u>Percentage Increase</u>
2006	\$ 9,967,451	14.2
2005	8,727,841	13.5
2004	7,690,206	10.3
2003	6,974,744	2.7
2002	6,796,241	4.4

Source: Maryland State Department of Assessments and Taxation

Tax Collection

County taxes are due and payable as of July 1. In fiscal year 2004 the discount rate was changed from 1% to ½% for the month of July. Beginning October 1, an interest penalty of 1% per month is charged for each month or fraction thereof until paid. Delinquent taxes are collected after nine months of delinquency by tax sales conducted by the County Treasurer, selling either real or personal property. Historically, the County has conducted tax sales on an annual basis.

The following table sets forth certain pertinent information with respect to the County's tax levels and tax collections for each of its five most recent fiscal years.

Fiscal Year Ending June 30	Taxes Levied	Taxes Collected in Year of Levy		Total Taxes Collected (Current and Delinquent)		Taxes Receivable	Accumulated Delinquent Tax as a Percentage of Total Taxes Collected
		Amount	Percent	Amount	Percent		
2006	\$91,181,043	\$90,683,209	99.45	\$90,156,489	98.88	\$ 769,519	.85
2005	82,469,584	81,711,820	99.08	82,182,622	99.65	1,123,858	1.37
2004	76,938,106	76,065,744	98.87	76,199,301	99.04	1,086,878	1.43
2003	73,840,344	73,321,205	99.29	73,709,417	99.82	686,606	0.94
2002	71,301,362	70,245,009	98.52	70,949,677	99.51	1,241,217	1.75

Source: Washington County Department of Budget and Finance

Principal Taxpayers

The twenty largest taxpayers in the County as of June 30, 2006, ranked by assessed value, are listed below.

Name of Taxpayer	Assessed Value	Percentage of Assessed Value
Allegheny Power	\$74,239,640	
Outlet Village of Hagerstown LLC	71,810,766	
Verizon-Maryland.....	70,586,780	
PR Valley Lmted Partnership (Valley Mall).....	65,602,830	
254 Hagerstown LLC (CitiCorp).....	61,206,510	
Bowman Group LLP	48,332,283	
Staples of Maryland LLC	47,383,020	
GP Hagerstown Limited PTSHP (First Data).....	30,530,100	
Rappaport, Jerome L. Jr (TruServ).....	26,500,000	
Columbia Gas of Maryland	21,360,520	
Sub-total	\$517,552,449	5.19%
Mack Trucks Inc	20,458,116	
Fed EX Ground Package System Inc	19,458,420	
FR Hagerstown LLC (Lippincott & PetSmart)	18,353,500	
Tractor Supply Compay	16,697,420	
WalMart Stores Inc	15,980,100	
WalMart Real Estate Business Trust	15,486,333	
Dot Foods	12,935,310	
Washington County Hospital Endowment Fund.....	12,760,658	
Lowes Home Centers Inc.....	11,802,203	
Phoenix Color Corporation.....	10,094,776	
Total	\$671,579,285	6.74%

Source: Washington County Treasurer's Office

The information set forth above was compiled from tax rolls on which the names and owners are not always recorded in the same way.

Local Income Tax

The State income tax is collected at a withholding rate of 4.75%. The tax is computed based on the taxable income of both residents and nonresidents. Additions and subtractions may affect the taxable income. Pursuant to State law, each county and Baltimore City must levy a local income tax at the rate of at least 1.25%, but not more than 3.20%, of the State income tax liability of individuals domiciled in their respective jurisdictions.

The County currently levies a local income tax on Washington County residents at the rate of 2.8%. The County does not levy a local income tax on corporations.

Other Local Taxes and Revenues

In addition to general property taxes and income taxes, the County levies and collects miscellaneous taxes, the largest of which is the recordation tax on instruments conveying title to property and securing debt. Revenues from this tax in the fiscal year ended June 30, 2006 were \$12,572,141. The County also receives revenues from taxes levied on amusement admission charges, licensing of the sale of alcoholic beverages, and issuance of building and other permits. Revenues from all these sources, including the recordation taxes, in the fiscal year ended June 30, 2006 were approximately \$14,714,961.

State Payment of Public School Capital Construction Costs

Pursuant to State law, the State pays certain costs in excess of available Federal funds of all public school construction projects and public school capital improvements if the Board of Public Works approves the projects or improvements. The cost of acquiring land is not a construction cost that will be paid by the State.

The Board of Public Works is empowered to define by regulation what shall constitute an approved construction or capital improvement cost and to adopt rules, regulations, and procedures for program administration. Program regulations limit the amount of construction costs paid by the State by instituting a maximum State project allocation for each school construction project funded through the program. Under the new formula, the State's share is computed by applying the applicable percentage to the eligible portion of school construction costs. For the County, the maximum State share will equal 65% of approved construction costs.

State and Federal Financial Assistance

During the County's fiscal year ended June 30, 2006, an aggregate of \$4,712,155 in Federal and State funds was received by all County departments for use in operations. The largest single categorical source was a Federal and State grant for \$659,879, which was for the Small Urban Area Public Transportation Grant. The County also received a total of \$20,896,549 in Federal and State funds for capital projects in fiscal year ended June 30, 2006.

During the fiscal year ended June 30, 2006, the Board of Education received \$94,929,000 in State funds and \$15,882,078 in Federal funds for operating and food service expenses. In fiscal year 2007, the Board of Education anticipates receiving \$111,143,110 in State funds and \$14,782,833 in Federal funds for operations.

Department of Water Quality

Although all water and sewer services are intended to be self supporting, for several years revenues from the operation of the Department of Water Quality's facilities have not been sufficient to cover operation and maintenance expenses and debt service. The principal cause of this shortfall was the construction of the Pretreatment Facility and the Conococheague Wastewater Treatment Plant (the "Wastewater Plant") (collectively the "Facilities"). In anticipation of future residential, industrial and commercial wastewater treatment needs and industrial wastewater pretreatment needs, the former Washington County Sanitary District, predecessor of the Department of Water Quality, constructed the Wastewater Plant, with a 2.5 million gallons per day capacity, and the Pretreatment Facility, to serve all of the County by providing wastewater treatment and pretreatment of non-hazardous industrial wastewater, landfill leachate, and metals-bearing waste streams. The Facilities were substantially completed in 1994 (Wastewater Plant) and 1995 (Pretreatment Facility).

As anticipated, the capacities of the Facilities exceed, and are expected to continue to exceed, the current user demand. The revenues of the Facilities are insufficient to cover the cost of operating the Facilities and their allocation of debt service without an investment from the County General Fund. A master plan is currently in the implementation phase that will allow the Department of Water Quality to be completely self-supporting.

In order to bring water and sewer user rates more in line with water and sewer operating and debt service costs, and as part of an overall review of the financial condition of the Water and Sewer Enterprise Funds, in 1995 the County retained Black & Veatch, an engineering and consulting firm, to perform a comprehensive rate study. As part of their study they designed a software program to provide a financial plan and to calculate water and sewer rates (see “Water and Sewer Financial Plan and Rate Model” – herein). The principal recommendations resulting from the study were (i) that the then existing subdistricts be consolidated into one water and one sewer subdistrict, (ii) that annual user rates for water and sewer be made uniform for all users in the respective subdistricts, and (iii) that annual user rates be raised in an aggregate amount which would provide revenues sufficient to meet annual operating and maintenance expenses, to pay debt service, and to fund an operating and maintenance reserve. The first two of these recommendations have been implemented. The required rate increases, which would have been sufficient to immediately achieve the last objective, however, were of a magnitude which, in many cases, would initially constitute an economic hardship to users and could have a negative economic impact on the County as a whole. In addition, costs associated with the economic development portion of the facilities should be funded by the General Fund as opposed to rate payer dollars.

The initial average rate increase was 23% in fiscal year 1997, with further increases of 2% to 7% during fiscal years 1998 through fiscal year 2007. However, several years there were no increases in water rates and one year there were no increases in sewer rates. Subsequent planned annual increases of sewer and water rates will be determined during the annual budget process, to complete the long-term plan of a self-supporting enterprise fund.

In order to cover operating expenses and meet debt service requirements, funds in addition to the rate increases are needed. These additional funds consist of an annual investment from the County General Fund for the economic development portion of these facilities and to accomplish the third objective of the Black & Veatch study. The increased revenue from the rate increases and the County General Fund investment fully supports all Departmental operations.

Water and Sewer Financial Plan and Rate Model

As part of its rate study, Black & Veatch, designed a software program which provides the Department of Water Quality with a long-term plan to provide funding for adequate operations and maintenance, addresses capital improvement projects, provides for funding of regulatory requirements, and builds and maintains cash reserves.

Each year during the annual operating budget process the model is updated with the following current information and estimated for ten years out where applicable:

- ◆ Estimated results of current year operations
- ◆ Cash balance at year end
- ◆ Number of customer utility accounts by class
- ◆ Operating and maintenance costs
- ◆ Capital Improvement Plan budget
- ◆ Miscellaneous revenue projections, grants, etc
- ◆ Existing and projected debt service
- ◆ Terms of projected new debt issues
- ◆ Water and sewer statistics for assigning cost of service

The above data as well as other factors included in the model, provides the County with a tool for planning rate increases that are structured so as not to cause an undue burden on the users. It also allows the County to know how rates would be effected if the General Fund investment was increased or reduced. Currently there is a law in place, passed by the Maryland General Assembly, which prohibits the decrease of the investment below the amount provided in fiscal year 2000. When the Department becomes self-supporting the County expects that the law will be revoked.

City/County/State Initiatives

In an effort to more fully and efficiently utilize existing infrastructure for utility operations, the County has worked at developing regional strategies with the City of Hagerstown and State authorities to accommodate overall water and sewer system needs. This not only allows for reduction of capital expenditures to serve the customers of both jurisdictions, but also allows for enhanced funding opportunities from State agencies due to common funding priorities, and reduction in overall long-term funding requirements.

The three jurisdictions working together have 1) consolidated Federally mandated industrial pretreatment programs into single agency management, 2) diverted flow to facilities where cost savings for one agency and increased revenue potential for the other has improved the bottom line for both, 3) transferred ownership of infrastructure (water lines) and associated debt from the County to the City of Hagerstown utility in areas where single agency operation was necessitated, and 4) sold infrastructure (wastewater transmission lines) from the County to the City of Hagerstown utility in areas that allowed the City of Hagerstown to serve additional customers within its' proposed boundaries without additional capital costs. This also provided County operations with additional revenue and reduction of operation and maintenance expense from infrastructure used only for transmission purposes. The above-mentioned projects have increased revenue and/or reduced overall operating expense to both agencies.

In addition, legislation adopted by the Maryland General Assembly in 2004 mandated that a Water and Sewer Infrastructure Commission be formed to identify cost-effective opportunities for regional cooperation and/or consolidation of infrastructure and/or services currently available. The report from this commission was provided in June 2006 to the Maryland General Assembly as required. This report and its findings are currently being reviewed by the Washington County Delegation and the local government bodies.

General Fund Balance Sheet

The following table indicates the County's General Fund balance sheet for each of the five most recent fiscal years.

County Commissioners of Washington County

**Balance Sheet
General Fund**

As of June 30

	2006	2005	2004	2003	2002
ASSETS					
Cash and short-term investments	\$ 34,639	\$ 48,277	\$ 47,975	\$ 28,343	\$ 99,285
Investment in U.S. Government					
Agency Securities	121,796,556	66,009,347	44,468,933	27,137,451	34,662,797
Property taxes receivable (net)	169,398	388,241	443,718	291,035	532,970
Accounts receivable	1,270,409	1,387,267	668,109	403,232	1,202,959
Due from other funds	760,894	1,136,276	1,256,256	1,446,349	1,750,000
Due from other governments	31,606,831	29,673,315	27,881,036	19,804,667	18,123,278
Inventories	27,978	30,605	25,122	30,807	25,598
Investment in lease	-	-	-	-	-
Budget appropriations paid in advance	-	-	-	-	-
Other assets	1,050,173	548,662	476,254	1,205,297	1,340,243
Total assets	\$ 156,716,878	\$ 99,221,990	\$ 75,267,403	\$ 50,347,181	\$ 57,737,130
LIABILITIES					
Accounts payable	\$ 3,435,431	\$ 6,196,768	\$ 4,053,111	\$ 3,572,638	\$ 2,707,242
Accrued Expenses	1,629,495	1,830,634	1,984,404	1,581,327	1,642,060
Liabilities on unpaid claims	2,700,000	3,300,240	2,615,704	2,269,129	2,250,000
Due to other funds	88,889,139	37,844,142	23,206,759	12,011,866	23,965,266
Deferred revenue	22,223,454	18,496,750	17,871,260	11,093,606	10,604,579
Other liabilities	5,973,677	5,709,398	4,136,832	2,372,994	1,976,773
Total liabilities	\$ 124,851,196	\$ 73,377,932	\$ 53,868,070	\$ 32,901,560	\$ 43,145,920
FUND EQUITY					
Reserved fund balances:					
Reserved for inventories	\$ 27,978	\$ 30,605	\$ 25,122	\$ 30,807	\$ 25,598
Reserved for liability claims	17,500	17,500	17,500	17,500	17,500
Reserved for long-term receivables	1,369,050	1,815,302	1,946,919	2,547,041	2,674,621
Reserved for program services	502,104	440,133	294,414	172,165	186,617
Unreserved fund balances:					
Designated	29,545,335	23,214,702	17,194,946	14,181,125	11,275,636
Undesignated	403,715	325,816	1,920,432	496,983	411,238
Total fund equity	\$ 31,865,682	\$ 25,844,058	\$ 21,399,333	\$ 17,445,621	\$ 14,591,210
Total liabilities and fund equity	\$ 156,716,878	\$ 99,221,990	\$ 75,267,403	\$ 50,347,181	\$ 57,737,130

Source: Washington County Department of Budget and Finance

Key Financial Statistics

Fund Balance

As illustrated by the following table, the ratio of the General Fund balance as a percent of total revenues has increased each year over the last five fiscal years.

Fiscal Year	Total Revenues	General Fund Balance	Percentage of Revenues
2002	\$132,439,181	\$ 14,591,210	11.01
2003	138,326,048	17,445,621	12.60
2004	147,675,968	21,399,333	14.49
2005	161,864,104	25,844,058	15.97
2006	176,181,824	31,865,682	18.08

Source: Washington County Department of Budget and Finance

Cash Reserves

The following table illustrates the trend of the last ten years of the General Fund cash reserves. In 2003, the County established a benchmark peer group to compare its performance in cash reserves. Prior to 2003 cash reserves were maintained using the industry standard of between 5 and 10 percent. It is the intention of the County to maintain a minimum reserve level of 17 percent, which would represent 60 days of working capital. The County attained this reserve level in fiscal year 2006.

General Fund Cash Reserves*

End of Fiscal Year	Peer Group Target	Actual Reserve	Percent of Reserve Level
1997	\$ **	\$ 5,158,348	5.11
1998	**	7,695,151	7.22
1999	**	8,966,101	8.00
2000	**	9,292,661	7.80
2001	**	9,993,366	8.09
2002	**	10,880,779	8.22
2003	19,804,709	14,216,782	10.63
2004	20,550,751	18,613,617	13.41
2005	20,601,936	22,714,702	14.32
2006	28,560,000	28,569,078	17.01

Source: Washington County Department of Budget and Finance

*See Appendix A-Notes to Financial Statement for explanation of what comprises Cash Reserves.

** 5% - 10% Standard Industry Target

Use of Year-End Surplus

The table below reveals the use of the year-end surplus of revenues over expenditures for the General Fund for fiscal years 1995 - 2006.

**Disposition of Year-End Surplus
History (1995-2006)**

Fiscal Year	Reserves	Additional Pay Go Funding for CIP
1995	\$ 338,137	\$ 356,250
1996	218,753	1,241,000
1997	2,427,954	2,300,000
1998	1,997,846	3,100,000
1999	997,514	2,124,556
2000	431,506	3,400,000
2001	830,448	1,372,868
2002	1,075,946	1,412,756
2003	2,854,411	- 0 -
2004	3,953,712	2,600,000
2005	4,444,725	8,499,770
2006	6,021,624	10,730,260

Source: Washington County Department of Budget and Finance

V. Debt and Capital Requirements

Debt Management Policy

The County adheres to its Debt Management Policy (the “DM Policy”), which sets forth the parameters for issuing new debt and managing outstanding debt. The DM Policy’s primary objective is to establish conditions for the use of debt and create procedures that minimize debt service and issuance cost, retain the highest credit rating, and maintain full and complete financial disclosure and reporting. The DM Policy addresses such things as: use of debt financing, capital planning, debt affordability measures, types of debt, and method of sale. Adherence to the DM Policy helps to ensure that the County maintains sound debt position and that credit quality is protected.

General Obligation and Revenue Bonds

The County may only issue general obligation and revenue bonds under authority conferred by the Maryland General Assembly. No referendum is required.

The County is authorized to issue short-term tax anticipation notes to meet any estimated current fiscal year cumulative cash flow deficit. Such notes must be repaid within six months of their date of issue. The County has no short-term notes outstanding at this time. As of June 1, 1999 the County may use a line-of-credit for \$5,000,000 to meet a temporary cash flow deficit.

The County may issue economic development revenue bonds under State law, which provides that such bonds shall not constitute an indebtedness or charge against the general credit or taxing power of the County. Pursuant to the County Code, the County may authorize long-term debt in the form of an installment purchase contract to pay for development rights or make certain other payments in connection with the Agricultural Land Preservation Program.

The County may issue general obligation bonds in an amount up to \$75,000,000 pursuant to the 2004 Act. The principal amount of bonds issued pursuant to the Act at June 2006 was \$31,860,890. During fiscal year 2007, \$3,751,232 has been issued for Maryland Department of the Environment loans. The unused authorization available under the 2004 Act prior to the issuance of the Bonds is \$39,379,868.

The County is authorized by State law to issue its bonds for the purpose of refunding any of its outstanding bonds, including the payment of any redemption premium and interest accrued to the date of redemption, purchase or maturity of the bonds being refunded.

As part of the annual budget process, an Annual Debt Affordability Report is prepared by the Finance Department. It is an effective tool for debt planning and management.

The Solid Waste operation was classified as a separate fund, from the Highway Fund, in 1996. It has paid for debt from generated revenues since that time. In 2002, the County reclassified the Solid Waste Fund as an enterprise fund. The debt paid out of revenues generated by that fund is considered self-supporting debt.

The following table sets forth the amount of the County's public improvement bonded debt issued and outstanding as of June 30, 2006. Outstanding bonds do not include those maturities of the Public Facilities Bonds of 1987, 1989, 1990, 1994, 1996, 1997, 1998, 1999, 2000, 2002, 2003, and the Consolidated Public Improvement Project and Refunding Bonds of 1991 and 1993 for the payment of which non-callable direct obligations of the United States have been placed in escrow. Outstanding amounts have not been adjusted for discounts or premiums.

**Statement of Public Improvements Bonded Debt
Issued and Outstanding
As of June 30, 2006**

	Date of Issue	Amount Issued	Amount Outstanding		
			General Fund	Solid Waste Fund	Total
Public Improvement Bonds.....	Feb 1994	\$ 9,900,000	\$ 950,000	\$ 150,000	\$ 1,100,000
Public Improvement Bonds.....	Feb 1995	9,425,000	475,000	-	475,000
Public Improvement Bonds.....	Mar 1997	7,500,000	328,065	21,935	350,000
Public Improvement Bonds.....	Apr 1998	7,000,000	641,765	8,235	650,000
Public Improvement Bonds.....	June 1999	10,000,000	4,599,416	2,285,584	6,885,000
Public Improvement Bonds.....	June 2000	13,375,000	2,323,889	1,111	2,325,000
Public Improvement Bonds.....	June 2001	12,690,000	6,208,174	4,316,826	10,525,000
Public Improvement Bonds.....	Mar 2002	10,700,000	8,373,308	61,692	8,435,000
Refunding Bonds.....	Mar 2002	11,085,000	9,106,138	823,862	9,930,000
Public Improvement Bonds.....	Jan 2003	7,450,000	5,561,727	68,273	5,630,000
Public Improvement and Refunding Bonds..	Oct 2003	16,570,000 ⁽¹⁾	13,512,605	822,395	14,335,000
Public Improvement Bonds.....	June 2005	30,740,000	28,880,566	859,434	29,740,000
Public Facility Bonds	Mar 2006	10,500,000	10,500,000	-	10,500,000
Maryland Industrial Land Act Loan.....	Feb 1981	893,000	87,517	-	87,517
MWQFA ⁽²⁾ Solid Waste Refinancing	Feb 2005	7,248,761	1,905,037	5,233,724	7,138,761
MWQFA ⁽²⁾ Financing Cell 3	Nov 2004	2,498,427	-	2,498,427	2,498,427
		\$ 167,575,188	\$ 93,453,207	\$ 17,151,498	\$ 110,604,705

Source: Washington County Department of Budget and Finance

(1) Total issue amount for all County funds was \$19,750,000.

(2) Maryland Water Quality Financing Administration.

Water and Sewer Bonds

The County is authorized to issue bonds secured by the full faith and credit and unlimited taxing power of the County to provide funds for the design, construction, establishment, purchase and condemnation of water systems, sewerage systems and surface water drainage systems in the service areas created by the County. To the extent that the special assessments and other charges imposed by the County with respect to a certain project are insufficient to pay that portion of the principal of and interest on any such bonds attributable to the cost of a project, the County is obligated to levy and to collect a tax upon all property subject to unlimited County taxation within the corporate limits of Washington County in rate and amount sufficient to provide funds as may be necessary to provide for the payment of such portion of the principal and interest as it becomes due.

By State law, the total bonded indebtedness of the County for these purposes, including bonded indebtedness previously issued by the former Washington County Sanitary District, may not exceed 25% of the assessed value of all property in Washington County subject to unlimited County taxation. At the time the State law was written the assessed value was equal to 40% of market value. Pursuant to legislature passed by the Maryland General Assembly, real property assessment law was altered to reflect the full market value assessments. Therefore, to maintain the intent of the State law, 25% of the 40% previous reduction of assessed value, or 10%, is used to calculate the legal debt margin.

The following table sets forth the amount of the County's water and sewer debt issued and outstanding as of June 30, 2006. Outstanding bonds do not include those maturities of the Series E and Series F Bonds for the payment of which noncallable direct obligations of the United States have been placed in escrow. Outstanding amounts have not been adjusted for discounts or premiums.

**Statement of Water and Sewer Bonded Debt
Issued and Outstanding
As of June 30, 2006**

	<u>Date of Issue</u>	<u>Issued</u>	<u>Outstanding</u>
MWQFA ⁽¹⁾ Loan	1990	\$ 5,366,480	\$ 1,853,109
MWQFA ⁽¹⁾ Loan	1993	10,222,550	557,067
MWQFA ⁽¹⁾ Loan	1995	4,798,397	514,586
MWQFA ⁽¹⁾ Loan	2000	3,620,697	2,796,639
MWQFA ⁽¹⁾ Loan	2004	10,750,000	10,355,000
MWQFA ⁽¹⁾ Loan	2004	8,091,063	7,241,063
Series A Bonds	1996	9,606,968	7,560,346
Series B Bonds	1996	3,525,000	1,950,000
Series 2003A Bonds	2003	2,340,000 ⁽²⁾	1,185,000
		<u>\$ 58,321,155</u>	<u>\$ 34,012,810</u>

Source: Washington County Department of Budget and Finance

(1) Maryland Water Quality Financing Administration.

(2) Total issue amount for all funds was \$19,750,000.

**Water and Sewer Bonded Debt
Schedule of Legal Debt Margin
As of June 30, 2006**

Assessed Value of Real Property in Washington County	\$9,967,451,126
Debt Limit: % of Assessed Value ⁽¹⁾	10%
Water and Sewer Borrowing Limitation	996,745,113
Water and Sewer Debt	34,012,810
Debt Margin	962,732,303
Ratio of Water and Sewer Debt to Assessed Value	.34%

Source: Washington County Department of Budget and Finance.

⁽¹⁾ Reduced from 25% to 10% - see "Water and Sewer Bonds" herein.

Capital Lease Obligations and Other Contracts

The County has entered into several five-year capital lease agreements. The outstanding balance of these obligations as of June 30, 2006 was \$356,992. The lease agreements are primarily for heavy-duty equipment. The leases have been recorded as capital leases in the appropriate County funds in the financial statement.

In addition to contracts for goods and services incurred in the ordinary course of business of the County, the County is party to numerous other contracts, primarily with engineers, architects and contractors relating to capital projects. Funds necessary to meet the County's obligations in respect to such contracts have been appropriated in the related fund.

Special Obligation Bonds

Certain Maryland counties, including Washington County, may create special taxing districts, levy ad valorem or special taxes and borrow money by issuing and selling bonds for the purpose of financing the cost of the design, construction, establishment, extension, alteration or acquisition of adequate storm drainage systems, sewers, water systems, roads, libraries, schools, transit facilities, solid waste facilities and other infrastructure improvements, whether situated within or outside the special taxing district. The bonds shall be payable solely from the ad valorem or special taxes levied on the property within the special taxing district and neither the bonds, nor any interest thereon, shall ever constitute an indebtedness or a charge against the general credit or taxing powers of the County.

The County has approved one "Request for Creation of a Special Taxing District and Related Actions" from the owners of certain real property located in Washington County. In June 1998, November 1998 and May 2001 the County issued its \$3,100,000, \$1,517,000 and \$2,454,000 Washington County Maryland Special Obligation Bonds (Barkdoll Tract Special Taxing District) Series 1998, Series 1998 B and Series 2000 respectively.

Bonded Indebtedness of Incorporated Municipalities

Seven of the nine incorporated municipalities of Washington County have outstanding indebtedness estimated to be \$39,843,149 as of June 30, 2006. The County is not obligated to pay such debt or the interest thereon and neither the faith and credit nor taxing power of the County is pledged to the payment of principal or interest on such indebtedness.

**Washington County, Maryland
Outstanding Underlying Debt
As of June 30, 2006**

Towns	Amount
Boonsboro.....	\$3,730,685
Clear Spring.....	1,247,988
Funkstown.....	241,272
Hagerstown.....	31,842,647
Hancock.....	2,388,210
Smithsburg.....	244,547
Williamsport.....	147,800
Total	\$39,843,149

Source: Washington County Department of Budget and Finance

Debt Ratios

The following schedules present the County's bonded debt outstanding as of June 30, 2006, and the ratios of such debt to the County's population and real and personal property assessed market values.

**Washington County, Maryland
Gross Direct and Overall Net Bonded Debt
As of June 30, 2006
(Excludes this Issue)**

General Government Debt.....	\$	93,453,207
Water and Sewer Debt ⁽¹⁾		34,012,810
Gross Direct Debt.....	\$	127,466,017
Solid Waste Debt.....	\$	17,151,498
Underlying Debt.....		39,843,149
Overall Net Debt.....	\$	184,460,664

Source: Washington County Department of Budget and Finance

(1) Currently 80% self-supporting. The goal is to be 100% self-supporting by 2012.

**Washington County, Maryland
Debt Per Capita and Ratio of Debt to Assessed Values,
As of June 30, 2006
(Excludes this Issue)**

Per Capita: (Estimated Population 141,895)		
Gross Direct Debt.....	\$	898
Overall Net Debt.....		\$ 1,300
Percentage of Assessed Value:.....		
(Assessed Value of \$9,967,451,126).....		
Gross Direct Debt ⁽¹⁾		1.28%
Overall Net Debt.....		1.85%

Source: Washington County Department of Budget and Finance

(1) Includes Water and Sewer debt which is currently 80% self-supporting.

The following table presents the County's gross direct debt per capita and ratios of gross direct debt to assessed value for the last five fiscal years.

Fiscal Year <u>Ended June 30</u>	Gross Direct <u>Debt (000)</u> ⁽¹⁾	Estimated <u>Population (000)</u>	Assessed <u>Value (000)</u>	Per <u>Capita</u>	Gross Direct Debt As % of <u>Assessed Value</u>
2006	\$127,466	142	\$9,967,451	\$ 898	1.28%
2005	128,064	140	8,727,841	917	1.46%
2004	127,016	137	7,690,206	929	1.66%
2003	130,682	133	6,974,745	981	1.87%
2002 ⁽²⁾	134,491	133	6,796,240	1010	1.98%

Source: Washington County Department of Budget and Finance

⁽¹⁾ Includes Water and Sewer debt which is currently 80% self-supporting.

⁽²⁾ Prior to 2003 Solid Waste debt was included in the Gross Direct Debt. For comparison purposes, Gross Direct Debt for 2002 has been reduced by Solid Waste debt amount.

Debt Service Requirements on County Debt

The following tables set forth the projected debt service requirements and the rapidity of repayment for the County's direct general obligation bonded debt and water and sewer debt described above as of June 30, 2006, adjusted to reflect issuance of the Bonds.

Washington County Schedule of Debt Service
Requirements on Long-term Obligations*
As of June 30, 2006

Year Ending June 30	General Government ⁽¹⁾ Direct Tax Supported Debt			Solid Waste ⁽²⁾ Self-Supporting Debt			Water and Sewer ⁽³⁾ Direct Tax Supported Debt			Total Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 6,093,931	\$ 3,724,630	\$ 9,818,561	\$ 771,700	\$ 497,536	\$ 1,269,236	\$ 3,347,866	\$ 736,371	\$ 4,084,236	\$ 10,213,496	\$ 4,958,537	\$ 15,172,034
2008	6,202,371	3,543,705	9,746,076	824,568	470,717	1,295,284	3,467,130	684,460	4,151,590	10,494,069	4,698,881	15,192,950
2009	6,450,177	3,310,596	9,760,773	863,866	443,354	1,307,220	3,509,942	676,300	4,186,242	10,823,985	4,430,250	15,254,235
2010	6,695,111	3,058,589	9,753,700	890,297	414,235	1,304,531	3,473,925	718,671	4,192,596	11,059,333	4,191,495	15,250,827
2011	7,050,144	2,800,237	9,850,381	951,643	384,553	1,336,196	2,910,279	695,469	3,605,748	10,912,066	3,880,259	14,792,325
2012	7,324,435	2,531,567	9,856,002	988,747	351,942	1,340,688	2,480,858	811,719	3,292,577	10,794,040	3,695,227	14,489,267
2013	6,949,009	2,248,333	9,197,342	985,583	317,558	1,303,140	2,387,696	893,042	3,280,738	10,322,288	3,458,933	13,781,221
2014	6,579,235	1,959,670	8,538,905	961,782	281,665	1,243,447	2,323,130	946,187	3,269,317	9,864,147	3,187,522	13,051,670
2015	6,197,186	1,685,138	7,882,324	900,274	246,500	1,146,773	2,214,315	1,028,464	3,242,779	9,311,775	2,960,102	12,271,876
2016	5,564,457	1,420,998	6,985,455	854,459	212,659	1,067,117	1,339,935	1,561,804	2,901,739	7,758,851	3,195,461	10,954,311
2017	5,221,318	1,185,895	6,407,213	869,071	180,896	1,049,966	1,302,390	1,597,651	2,900,041	7,392,779	2,964,441	10,357,220
2018	4,377,940	963,173	5,341,113	1,363,938	148,276	1,512,214	1,260,513	1,637,827	2,898,340	7,002,391	2,749,277	9,751,668
2019	3,579,100	777,819	4,356,919	1,914,284	110,429	2,024,712	1,227,646	1,668,993	2,896,639	6,721,030	2,557,241	9,278,270
2020	3,506,330	635,813	4,142,143	1,393,576	75,897	1,469,472	1,191,884	1,698,053	2,889,937	6,091,790	2,409,762	8,501,552
2021	3,355,664	489,229	3,844,893	575,781	46,053	621,833	654,238	9,022	663,260	4,585,683	544,304	5,129,987
2022	2,284,184	338,031	2,622,215	828,817	23,588	852,404	460,000	3,684	463,684	3,573,001	365,303	3,938,303
2023	2,001,687	247,303	2,248,990	926,648	14,457	941,104	450,000	1,844	451,844	3,378,335	263,604	3,641,938
2024	1,803,470	170,150	1,973,620	167,693	4,429	172,122	11,063	45	11,108	1,982,226	174,624	2,156,850
2025	1,472,458	92,347	1,564,805	118,772	1,962	120,733	-	-	-	1,591,230	94,309	1,685,538
2026	745,000	31,659	776,659	-	-	-	-	-	-	745,000	31,659	776,659
2027	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 93,453,207</u>	<u>\$ 31,214,882</u>	<u>\$ 124,668,089</u>	<u>\$ 17,151,498</u>	<u>\$ 4,226,703</u>	<u>\$ 21,378,200</u>	<u>\$ 34,012,810</u>	<u>\$ 15,369,604</u>	<u>\$ 49,382,414</u>	<u>\$ 144,617,514</u>	<u>\$ 50,811,189</u>	<u>\$ 195,428,703</u>

Source: Washington County Department of Budget and Finance

(1) Includes General Obligation Bonds and Maryland Industrial Land Act Loan.

(2) Solid Waste Debt is considered self-supporting as it is paid from service revenues.

(3) Water and Sewer debt is 80% self-supporting. The goal is to be 100% self-supporting by 2012.

* Totals may not foot due to rounding.

Washington County Schedule of Debt Service
 Requirements of Long-term Obligations
 As of June 30, 2006
 Adjusted to Reflect Issuance of the Bonds*

Year Ending June 30	Outstanding Debt			Public Improvement Bonds of 2007			Total Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
	2007	\$ 10,213,496	\$ 4,958,537	\$ 15,172,034	\$ -	\$ -	\$ -	\$ 10,213,496	\$ 4,958,537
2008	10,494,069	4,698,881	15,192,950	520,000	766,889	1,286,889	11,014,069	5,465,770	16,479,839
2009	10,823,985	4,430,250	15,254,235	540,000	657,900	1,197,900	11,363,985	5,088,150	16,452,135
2010	11,059,333	4,191,495	15,250,827	565,000	634,950	1,199,950	11,624,333	4,826,445	16,450,777
2011	10,912,066	3,880,259	14,792,325	590,000	610,937	1,200,937	11,502,066	4,491,196	15,993,262
2012	10,794,040	3,695,227	14,489,267	615,000	585,863	1,200,863	11,409,040	4,281,090	15,690,130
2013	10,322,288	3,458,933	13,781,221	640,000	559,725	1,199,725	10,962,288	4,018,658	14,980,946
2014	9,864,147	3,187,522	13,051,670	670,000	532,525	1,202,525	10,534,147	3,720,047	14,254,195
2015	9,311,775	2,960,102	12,271,876	700,000	504,050	1,204,050	10,011,775	3,464,152	13,475,926
2016	7,758,851	3,195,461	10,954,311	730,000	474,300	1,204,300	8,488,851	3,669,761	12,158,611
2017	7,392,779	2,964,441	10,357,220	760,000	443,275	1,203,275	8,152,779	3,407,716	11,560,495
2018	7,002,391	2,749,277	9,751,668	795,000	410,975	1,205,975	7,797,391	3,160,252	10,957,643
2019	6,721,030	2,557,241	9,278,270	825,000	377,187	1,202,187	7,546,030	2,934,428	10,480,457
2020	6,091,790	2,409,762	8,501,552	865,000	342,125	1,207,125	6,956,790	2,751,887	9,708,677
2021	4,585,683	544,304	5,129,987	900,000	305,363	1,205,363	5,485,683	849,667	6,335,350
2022	3,573,001	365,303	3,938,303	940,000	267,113	1,207,113	4,513,001	632,416	5,145,416
2023	3,378,335	263,604	3,641,938	980,000	227,162	1,207,162	4,358,335	490,766	4,849,100
2024	1,982,226	174,624	2,156,850	1,025,000	185,513	1,210,513	3,007,226	360,137	3,367,363
2025	1,591,230	94,309	1,685,538	1,065,000	141,950	1,206,950	2,656,230	236,259	2,892,488
2026	745,000	31,659	776,659	1,115,000	96,687	1,211,687	1,860,000	128,346	1,988,346
2027	-	-	-	1,160,000	49,300	1,209,300	1,160,000	49,300	1,209,300
	<u>\$ 144,617,514</u>	<u>\$ 50,811,189</u>	<u>\$ 195,428,703</u>	<u>\$ 16,000,000</u>	<u>\$ 8,173,789</u>	<u>\$ 24,173,789</u>	<u>\$ 160,617,514</u>	<u>\$ 58,984,978</u>	<u>\$ 219,602,492</u>

Source: Washington County Department of Budget and Finance
 * Totals may not foot due to rounding.

Rapidity of Net Tax-Supported Debt Principal Payment
June 30, 2006
Adjusted to Reflect Issuance of the Bonds

Number of Years	General Government		Water and Sewer ⁽¹⁾		Total Net Direct Debt	
	Principal Amount	Percent	Principal Amount	Percent	Principal Amount	Percent
5	\$ 34,331,735	32.16	\$ 16,709,142	49.13	\$ 51,040,876	36.26
10	69,733,055	65.33	27,455,076	80.72	97,188,131	69.05
15	93,216,659	87.33	33,091,747	97.29	126,308,405	89.73
20	105,780,795	99.10	34,012,810	100.00	139,793,605	99.32
25	106,744,407	100.00	34,012,810	100.00	140,757,217	100.00

Source: Washington County Department of Budget and Finance

⁽¹⁾ Water and Sewer debt is 80% self-supporting

Capital Requirements

Capital Improvement Program Summary

The County has established a Capital Improvement Program (“CIP”) for establishing a Capital Budget to forecast future needs and set priorities. It is reviewed and updated during the annual budget process. It includes capital project funding requirements for the current and the next succeeding five fiscal years. The objectives of the CIP are to: (1) provide a means for coordinating and consolidating into one document all departmental and agency requests for capital funds; (2) establish a system by which the capital projects of the County can be examined and given priorities according to their relative importance; (3) provide a budgetary tool for the implementation of the Comprehensive Plan elements; (4) forecast future capital demands on local current revenue; and (5) allow projects to be scheduled over a six-year period, thereby providing adequate planning for both financial resources and project implementation. By applying the guidelines of the County’s Debt Management Policy and the annual Debt Capacity Analysis, the Board is able to adopt a Capital Budget that provides maximum benefits from available public funds and assures sound fiscal planning. See “FINANCIAL INFORMATION – Budget Process and Schedule” herein.

VI. Miscellaneous

Litigation

The County is currently a defendant in a number of litigation matters involving employment matters, automobile accidents and other claims. Most of these are covered by insurance, subject to a deductible. Since most of these disputes involve unliquidated damages, it is not possible to provide a reliable total of damages for which the County may become liable. In the opinion of the County Attorney, all such matters now pending or threatened are, collectively, unlikely to result in total liabilities that would have a material effect on the financial condition of the County.

Ratings

Moody's Investors Service, Inc., Standard & Poor's Rating Services, and Fitch Ratings have given the Bonds the ratings indicated on the cover page of this Official Statement. An explanation of the significance of any of such ratings may be obtained only from the agency furnishing the rating. The County furnished to such rating agencies the information contained in a preliminary form of this Official Statement and other materials and information pertaining to the Bonds. Generally, rating agencies base their rating on such materials and information, as well as their own investigations, studies and assumptions. The ratings given the Bonds may be changed at any time and no assurance can be given that they will not be revised downward or withdrawn by any such rating agencies if, in the judgment of any such rating agencies, circumstances should warrant such action. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on market prices for the Bonds.

Continuing Disclosure Undertaking

In order to enable participating underwriters, as defined in Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") to comply with the requirements of paragraph (b)(5) of Rule 15c2-12, the County will execute and deliver a continuing disclosure agreement (the "Continuing Disclosure Agreement") on or before the date of issuance and delivery of the Bonds, the form of which is attached to this Official Statement as Appendix D. Potential purchasers of the Bonds should note that the definition of Reportable Events in Appendix D is intended to completely restate the events specified in Rule 15c2-12. It is noted that certain Reportable Events are expected to have no applicability to the Bonds, such as the possibility of unscheduled draws on debt service reserves and matters affecting collateral for the Bonds.

The County inadvertently did not file its fiscal year 2001 financial information until March 20, 2002, other than in this instance, the County has not failed to comply with any other prior disclosure undertaking made pursuant to Rule 15c2-12.

Sale at Competitive Bidding

The Bonds were offered by the County at competitive bidding on May 22, 2007, in accordance with the Notice of Sale (a copy of which is attached as Appendix C). The interest rates shown on the cover of this Official Statement are the interest rates resulting from the award of the Bonds at the competitive bidding. The yields or prices shown on the cover page of this Official Statement were furnished by the successful bidders for the Bonds. All other information concerning the nature and terms of any re-offering should be obtained from the successful bidders for the Bonds and not from the County.

Legal Matters

All legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approval of Venable LLP, Baltimore, Maryland, Bond Counsel. Delivery of the Bonds is conditioned upon delivery by Bond Counsel of opinions substantially in the form of Appendix B to this Official Statement. The certified text of the approving legal opinion will be printed on or attached to each Bond.

Independent Auditors

The financial statements as of June 30, 2006, and for the year then ended, included in this Official Statement, have been audited by Smith Elliott Kearns & Company, LLC, independent auditors, as stated in their report appearing herein.

Financial Advisor

Public Advisory Consultants, Incorporated, Owings Mills, Maryland, serves as financial advisor in connection with the issuance of the Bonds and other matters related to the County's finances.

Appendix A

General Purpose Financial Statements

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**COUNTY COMMISSIONERS OF
WASHINGTON COUNTY**

FINANCIAL REPORT

JUNE 30, 2006



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Smith Elliott Kearns & Company, LLC
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

County Commissioners of Washington County, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information, of the County Commissioners of Washington County, Maryland, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Management of the County Commissioners of Washington County. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Board of Education of Washington County, which represents the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, in so far as it relates to the component unit presentation of the Board of Education of Washington County, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information, of the County Commissioners of Washington County as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2006, on our consideration of the County Commissioners of Washington County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the other required supplementary information on pages 2 through 12 and 60 through 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Smith Elliott Kearns & Company, LLC

Hagerstown, Maryland
October 12, 2006



Management's Discussion and Analysis

This discussion and analysis of Washington County's (County) financial statements is designed to introduce the basic financial statements and provide an analytical overview of the County's financial activities for the fiscal year ended June 30, 2006. The basic financial statements are comprised of the government-wide financial statements, fund financial statements, and footnotes. We hope this, in conjunction with additional information provided within the statements, will assist readers in identifying significant financial issues and changes in the County's financial position.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: **1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.** This report also contains **4) supplementary information** in addition to the basic financial statements themselves.

1) Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private business. The government-wide financial statements include a *statement of net assets* and a *statement of activities*.

- The *statement of net assets* presents information on all of the County's asset and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods. (E.g., uncollected taxes and earned but unused vacation leave).

Both of these financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) and activities from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- The *governmental activities* of the County include education, general government, parks and recreation public safety, courts, health and social services, and highway maintenance.
- The *business-type activities* of the County include airport, public golf course, public transit, solid waste, and water quality operations.

The government-wide financial statements include not only the County itself (known as the primary government), but also include the Washington County Board of Education as a legally separate component unit and is reported separately from financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-14 of this report.

2) ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: *governmental*, *proprietary*, and *fiduciary* funds.

- ***Governmental Funds.*** Governmental Funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The county maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general, capital improvement, community partnership, foreign trade zone, inmate welfare, agricultural education, and highway funds.

The county adopts an annual appropriated budget for its general, community partnership and highway fund. A budgetary comparison statement has been provided for these funds to demonstrate budgetary compliance.

The basic governmental fund financial statements can be found on pages 15-17 of this report.

- ***Proprietary funds.*** When the county charges customers for a service it provides, whether to outside customers or to other units of government, these services are generally reported in proprietary funds. *Proprietary funds* are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. Proprietary funds are comprised of two types: 1) *Enterprise funds* and 2) *Internal service funds*. The county uses enterprise funds to account for its airport, public golf course, public transit, solid waste, and water quality operations. Internal service funds are used to report activities that provide supplies and services for the governments other programs and activities. The county does not utilize an internal service fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic proprietary fund financial statements can be found on pages 19-20 of this report.

- ***Fiduciary Funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the county's own programs. The accounting used for fiduciary funds is similar to proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

3) ***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-58 of this report.

4) **Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the county's progress in funding its obligation to provide pension benefits to its employees and includes budgetary comparison schedules for the general, community partnership and highway funds.

In addition to this MD&A, required supplementary information can be found on page 59-64 of this report.

Financial Analysis on Government-Wide Financial Statements

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the county, assets exceeded liabilities by \$508,253,182 as of the close of the most recent fiscal year.

Washington County, Maryland
Net Assets
(Government-Wide)

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2006	2005	2006	2005	2006	2005	
Current and other assets	140,259,110	109,993,989	53,192,660	32,111,095	193,451,770	142,105,084	36%
Capital assets	340,638,205	359,039,600	209,364,456	185,187,237	550,002,661	544,226,837	1%
Total Assets	480,897,315	469,033,589	262,557,116	217,298,332	743,454,431	686,331,921	8%
Current and other liabilities	34,109,695	50,941,563	20,923,532	18,072,442	55,033,227	69,014,005	(20%)
Long-term liabilities	87,805,267	82,991,959	92,362,755	69,808,520	180,168,022	152,800,479	18%
Total liabilities	121,914,962	133,933,522	113,286,287	87,880,962	235,201,249	221,814,484	6%
Invested in Capital Assets Net of Related Debt, net	309,402,007	333,297,890	142,300,560	130,935,467	451,702,567	464,233,357	(3%)
Restricted Net Assets	24,603,443	16,750,085	993,451	1,166,406	25,596,894	17,916,491	44%
Unrestricted Net Assets	24,976,903	(14,947,908)	5,976,818	(2,684,503)	30,953,721	(17,632,411)	275%
Total Net Assets	358,982,353	335,100,067	149,270,829	129,417,370	508,253,182	464,517,437	9%

The largest portion of the county's net assets reflects its investments in capital assets (e.g., land, roads, and bridges), less related outstanding debt used to acquire those assets in the amount of \$451.7 million. The county uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the county's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Unrestricted net assets in governmental activities have been reduced by \$45,896,315 in long-term debt, resulting in unrestricted net assets of \$25 million. This long-term debt was incurred by the County's general fund for the purpose of capital asset acquisition for the Board of Education of \$41 million and Hagerstown Community College of \$4.7 million. The capital assets acquired with these bonds are not reflected in the county's financial statements.

Washington County, Maryland
Change in Net Assets
(Government-Wide)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Program revenues:						
Charges for Services	3,355,472	2,748,304	23,100,388	21,448,810	26,455,860	24,197,114
Operating Grants and Contributions	15,408,143	15,086,387	1,116,234	998,153	16,524,377	16,084,540
Capital Grants and Contributions	10,292,384	4,614,056	19,377,179	14,138,092	29,669,563	18,752,148
General Revenues:						
Property Taxes	86,473,894	79,726,636	-	-	86,473,894	79,726,636
Local Taxes	97,725,076	79,677,810	-	-	97,725,076	79,677,810
Other	6,229,938	3,803,986	64,292	97,851	6,294,230	3,901,837
Total Revenues	219,484,907	185,657,179	43,658,093	36,682,906	263,143,000	222,340,085
Program Expenses:						
General Government	46,405,494	46,088,836	-	-	46,405,494	46,088,836
Public Safety	21,800,458	20,107,939	-	-	21,800,458	20,107,939
Health	2,192,664	1,802,174	-	-	2,192,664	1,802,174
Social Services	1,153,144	1,281,971	-	-	1,153,144	1,281,971
Education	98,965,237	92,072,413	-	-	98,965,237	92,072,413
Parks and Recreation	4,667,664	3,659,866	-	-	4,667,664	3,659,866
Natural Resources	447,286	336,589	-	-	447,286	336,589
General Operations	705,413	2,147,244	-	-	705,413	2,147,244
Intergovernmental	1,420,791	1,308,165	-	-	1,420,791	1,308,165
Community Promotion	2,073,119	2,267,379	-	-	2,073,119	2,267,379
Highways and Streets	7,086,380	6,622,159	-	-	7,086,380	6,622,159
Interest on long-term debt	3,665,645	3,336,048	-	-	3,665,645	3,336,048
Business-type Activities:						
Water Quality	-	-	10,694,397	9,820,932	10,694,397	9,820,932
Solid Waste	-	-	12,093,850	7,278,992	12,093,850	7,278,992
Public Transit	-	-	1,963,195	1,907,882	1,963,195	1,907,882
Airport	-	-	2,795,170	2,241,826	2,795,170	2,241,826
Golf Course	-	-	1,364,799	1,299,235	1,364,799	1,299,235
Total Expenses	190,583,295	181,030,783	28,911,411	22,548,867	219,494,706	203,579,650
Change in net assets before transfers and special items	28,901,612	4,626,396	14,746,682	14,134,039	43,648,294	18,760,435
Special items	73,705	(40,878)	13,746	(76,518)	87,451	(117,396)
Transfers	(5,093,031)	(5,607,065)	5,093,031	5,607,065	-	-
Change in Net Assets	23,882,286	(1,021,547)	19,853,459	19,664,586	43,735,745	18,643,039
Net Assets – Beginning of year	335,100,067	336,121,614	129,417,370	109,752,784	464,517,437	445,874,398
Net Assets – End of year	358,982,353	335,100,067	149,270,829	129,417,370	508,253,182	464,517,437

The County's total net assets increased by \$43.7 million in fiscal year 2006. Total net assets as of June 30, 2006 were \$508 million representing a 9% increase.

Governmental Activities (government-wide) – Change in Net Assets:

Net assets in governmental activities increased by \$23.9 million. Key factors in this increase are as follows:

- Property tax was under budget by \$700,000 or .01%. The Commissioners approved a tax rebate to taxpayers of \$150 each in fiscal year 2006. Total rebates issued were approximately \$5.5 million, of which \$2 million had been previously set aside in reserve. Total property tax exceeded budget by \$2.4 million while overruns in discounts and credits amounted to \$3.1 million.

- ❑ Recordation tax revenue was up by 50% or \$4.2 million, reflecting the early trend in fiscal year 2006 in property transfers and sales.
- ❑ Local income tax increased by \$22.3 million this year or 41%. This represents the growing population within Washington County and higher wage earners that are accompanying that migration in addition to increased wage adjustments of \$4.9 million and an adjustment related to a change in accounting estimate of reserve for refunds related to Income Tax held by the State of Maryland.
- ❑ Interest Income exceeded goals by \$3.2 million. This is attributable to several factors including (1) earnings on increased capital reserves from various funds, (2) increasing interest rates that are subject to market changes, and (3) changes in anticipated cash flow requirements for fiscal year 2006.
- ❑ Expenditures exceeded budget mainly as a result of additional funds transferred to the Capital Improvement fund to cover shortfalls in excise tax revenues. The amount transferred to offset fiscal year 2006 shortfall in excise tax revenue was \$4.8 million. In addition, due to the current slow down in the housing industry, \$5.2 million was also transferred to offset the fiscal year 2007 projected shortfall so that school and roads projects can still proceed without interruption. Insurance reserves ended the year with a positive adjustment of \$528,000, which included health and workers compensation insurance. The County also had savings of \$1.6 million from unspent debt service reserves of \$850,000 and \$811,000 in debt service savings due to a project delay. Both debt service amounts were utilized in the fiscal year 2007 budget to offset anticipated increases. One noteworthy exception, however, was the County's depreciation and amortization of infrastructure and fixed assets on the governmental activities in an amount of approximately \$29 million.

Business-type Activities (government-wide) – Change in Net Assets:

Business-type activities increased the County's net assets by \$19.8 million, adding to the increase in net assets attributable to governmental activities. Key elements of this increase are as follows:

- ❑ Water Quality net assets increased by \$4.8 million, for a total of \$80 million. The increase resulted from increases in connection fees and user rates, both designed to provide resources to meet operational cost, projected debt service, capital requirements and to provide for stable reserves. Revenues exceeded budget as a result of increased demand, which was projected in the cost of service model at 1%.
- ❑ Solid Waste total net assets decreased to \$1.3 million as of June 30, 2006. This decrease resulted in two areas: (1) operational revenue exceeded budget by \$2.1 million which was related to tip fee revenue and topsoil sales and (2) adjustments made to closures costs for the Resh Landfill capping project of \$3.8 million. The remaining difference of \$400,000 is related various operational savings. In addition, the Solid Waste Fund has set aside the required funds for Closure and Post-Closure in the amount of \$4.4 million for the Forty West Landfill.
- ❑ Public Transit total net assets were \$1.6 million as of June 30, 2006, representing a \$3,594 increase. Federal, state, and local operating grants of \$1.5 million subsidize transportation activities. Capital grants were generated for capital acquisition in the amount of \$133,233.
- ❑ Airport total net assets were \$58.2 million as of June 30, 2006, representing a \$16.5 million increase. The net increase is a result of capital grants for construction activity in the amount of \$17.4 million, which is restricted for capital asset acquisition. The remaining decrease resulted mainly from depreciation expense in the amount of \$1.2 million.
- ❑ Golf Course net assets were \$2.8 million as of June 30, 2006, representing a \$168,328 decrease. The net decrease is a result of approximately \$9,000 in operation shortfalls and \$158,442 in depreciation expense.

Financial Analysis on Government Fund Financial Statements

The County uses fund accounting to ensure and demonstrate compliance with finance related legal requirements and restrictions, and fiscal accountability.

Governmental Funds:

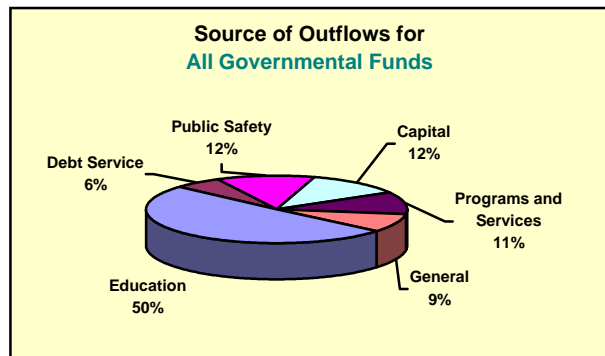
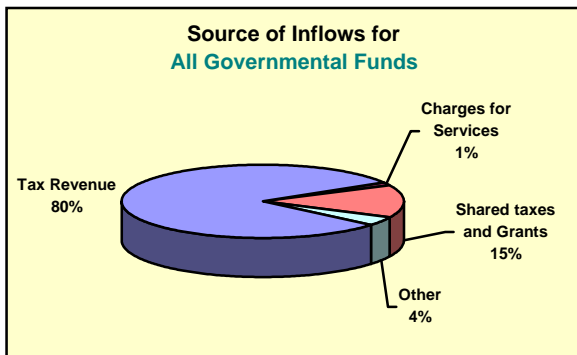
The focus of the County’s governmental funds is to provide information on near term inflows, outflow, and balances of spendable resources. Such information is useful in assessing the County’s financing requirements. In particular, fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County’s governmental funds reported combined fund balances of \$97 million an increase of \$28.7 million in comparison with the prior year. Approximately \$29.6 million of this amount is designated for the general fund cash reserve and \$65.3 million is restricted for construction projects and designated programs. The remaining amount is appropriated for uses such as long-term receivables and program services. In the combined governmental activities the County maintains seven separate funds. Shown below are fund balances and net changes in fund balance for each.

Washington County, Maryland
Fund Balance and Net Changes in Fund Balance
(Government Fund Basis)

Governmental Activities – Fund Statements	Fund Balance			Net Change in Fund Balance		
	2006	2005	% Change	2006	2005	% Change
General Fund	31,865,682	25,844,058	23%	6,021,624	4,444,725	35%
Foreign Trade Zone	6,692	6,692	0%	0	0	0%
Community Partnership	504,361	495,388	2%	8,973	3,380	165%
Inmate Welfare Fund	302,776	226,791	34%	75,985	51,463	48%
Agricultural Education Fund	158,528	113,556	40%	44,972	51,592	(13%)
Highways	4,321,530	3,682,013	17%	639,517	2,343,179	(73%)
Capital Improvement Projects	59,969,216	38,054,993	58%	21,914,223	18,481,781	19%
Total	97,128,785	68,423,491	42%	28,705,294	25,376,120	13%

The following reflects all inflows and outflows of the governmental funds in total for the fiscal year ending June 30, 2006.



- The **General fund** is the chief operating fund of the County. At the end of the current fiscal year, unreserved fund balance of the general fund was \$30 million, while total fund balance reached \$31.9 million. As a measure of the General Fund’s liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents \$29.6 million that is designated for cash reserve while \$403,705 is undesignated, for a total of \$30 million of unreserved fund balance.

The fund balance of the County’s General Fund increased by \$6 million during the current fiscal year. Key factors in this growth are:

- Property tax was under budget by \$700,000 or .01%. The Commissioners approved a tax rebate to the taxpayers of \$150 each in fiscal year 2006. Total rebates issued were approximately \$5.5 million, of which

\$2 million has been previously set aside in reserve. Total property tax exceeded budget by \$2.4 million while overruns in discounts and credits of amounted to \$3.1 million.

- Recordation tax revenue was up by 50% or \$4.2 million, reflecting the early trend in fiscal year 2006 in property transfers and sales.
 - Income Tax revenue exceeded budget by \$4.8 million or 8.6%. This represents the growing population within Washington County and higher wage earners that are accompanying that migration in addition to increased wage adjustments.
 - Interest Income exceeded goals by \$3.2 million. This is attributable to several factors including (1) earnings on increased capital reserves from various funds, (2) increasing interest rates that are subject to market changes, and (3) changes in anticipated cash flow requirements for fiscal year 2006.
 - Expenditures were over mainly as a result of additional funds transferred to the Capital Improvement fund to cover shortfalls in excise tax revenues. The amount transferred to cover the shortfall was \$10 million. Insurance reserves ended the year with a positive adjustment of \$528,000, which included health and workers compensation insurance. The County also had savings of \$1.6 million from unspent debt service reserves of \$850,000 and \$811,000 in debt service savings due to a project delay. Both debt service amounts were utilized in the fiscal year 2007 budget to offset anticipated increases.
- The **Highway fund** has a total fund balance of \$4.3 million, which is unreserved but designated for program specific costs related to maintenance, capital and operations of County roads. The fund balance of the County's Highway Fund increased by \$639,517 during the current fiscal year. The increase in fund balance is mainly due to excess Highway User revenue of \$500,000 and \$900,000 of equipment not purchased until fiscal year 2007, unspent small road project reserves, and the \$1.3 million additional transfer of capital funds for major road improvement projects.
 - The **Capital Project Fund** is used to account for major capital acquisition and construction of County operations. At the end of the current fiscal year the Capital Improvement Fund has a total fund balance of \$60 million, all of which is designated for approved major capital projects. Major funding sources for these projects are pay-go-funding, debt proceeds, fees and taxes and grants. Fund balance increased by \$21.9 million for the current fiscal year. The increase in fund balance is the result of timing differences in projects with funding proceeds and project expenditures.
 - The County's **Foreign Trade Zone, Community Partnership, Inmate Welfare, and Agricultural Education Funds** combined have a fund balance of \$972,357. The net increase in fund balance during the current year in these funds was \$129,930. These funds represent monies designated for specific programs and services.

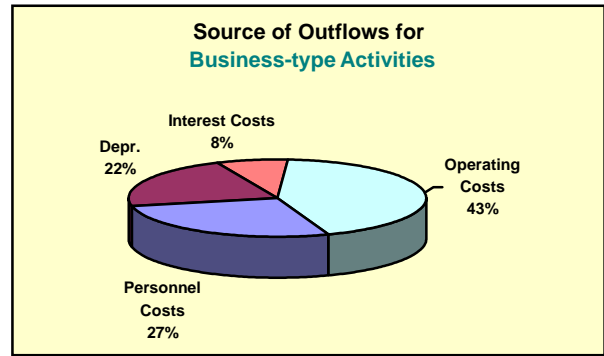
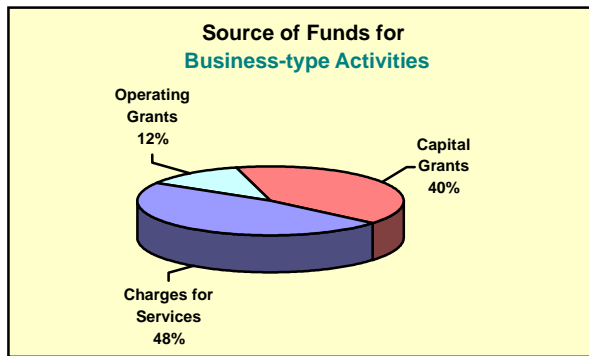
Proprietary Funds:

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Net assets and net income (loss) were as follows:

Washington County, Maryland
Net Assets and Net Income (Loss)
(Government Fund Basis)

Enterprise Fund Statements	Net Assets			Net Income (Loss)		
	2006	2005	% Change	2006	2005	% Change
Water Quality	80,182,405	75,378,640	6%	4,803,765	4,999,163	(4%)
Solid Waste	6,470,774	7,770,206	(17%)	(1,299,432)	1,915,649	(167%)
Public Transit	1,583,501	1,579,907	.2%	3,594	61,564	(94%)
Airport	58,228,634	41,714,774	40%	16,513,860	12,849,248	28%
Black Rock	2,805,515	2,973,843	(6%)	(168,328)	(161,038)	(5%)
Total	149,270,829	129,417,370	15%	19,853,459	19,664,586	1%

The following reflects the inflows and outflows of the business-type activity funds for the fiscal year ending June 30, 2006.



Other factors concerning the finances of these funds have been addressed in the discussion of the County's business-type activities under "Financial Analysis on Government-Wide Financial Statements".

General Fund Budgetary Analysis – Government Fund Financial Statement Basis

Washington County, Maryland
General Fund Budgetary Analysis
As of June 30, 2006
(Government Fund Basis)

Category	Budgetary Amounts		Actual	Difference	
	Original	Final		Org. Budget vs. Final Budget	Final Budget vs. Actual
Revenues:					
Property Tax	87,082,520	87,082,520	86,392,611	0	(689,909)
Local Tax	65,820,000	66,763,222	75,975,129	943,222	9,211,907
Other Revenue	5,645,296	5,783,713	9,004,838	138,417	3,221,125
Grant	2,322,050	5,076,382	4,809,246	2,754,322	(267,136)
Total Revenues	160,869,866	164,705,837	176,181,824	3,835,971	11,475,987
Expenses:					
General Government	14,916,290	17,643,912	15,777,604	2,727,622	1,866,308
Public Safety	22,131,377	22,144,360	21,882,781	12,983	261,579
Health and Social Services	3,073,443	3,286,369	3,345,808	212,926	(59,439)
Education	90,457,492	90,457,492	90,449,992	0	7,500
Parks, Recreation, Natural Resources	4,757,444	4,909,624	4,790,835	152,180	118,789
General Operations	933,020	933,020	311,667	0	621,353
Intergovernmental	12,119,562	12,849,822	23,036,302	730,260	(10,186,480)
Debt Service	12,481,238	12,481,238	10,565,211	0	1,916,027
Total Expenses	160,869,866	164,705,837	170,160,200	3,835,971	(5,454,363)
Net Increase in Assets - 06/30/06	-	-	6,021,624	0	6,021,624

Original Budget vs. Final Budget:

The net budgetary change of \$3.8 million resulted from grant and capital transactions. Increases in grants reflected as revenue were received or expended during the fiscal year from additional state or federal grants of \$2.7 million.

In addition, \$700,000 in one-time capital transfers was made to the Capital Improvement Fund to fund specific project costs for education and libraries. The remaining difference is related to small changes in operating and project costs.

Final Budget vs. Actual Results:

Final year-end results yielded a \$6 million increase to cash reserves. Revenue was over by \$11.5 million and expenditures were over by \$5.5 million. Property Tax experienced a 2.7% increase over budget, but was reduced by a tax rebate, netting total property tax to a shortfall of (\$700,000) or (.7%). Recordation Tax revenue was up by 50% or \$4 million, while Income Tax and interest income exceeded final budget by \$4.9 million and \$3 million, respectively. Offsetting these revenues were capital funds transferred to the Capital Improvement fund to cover shortfalls in excise tax revenues for fiscal year 2006 and 2007. The amount transferred to cover the shortfall was \$10 million. Insurance reserves ended the year with a positive adjustment of \$528,000, which included health and workers compensation insurance.

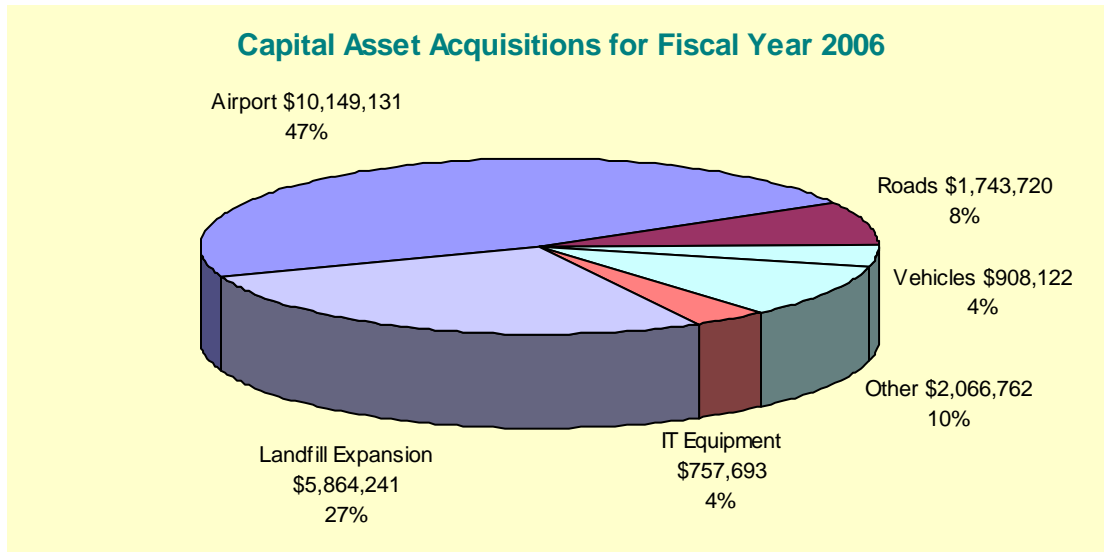
Capital Asset Administration – Government Wide Statements

The County’s investment in capital assets for its governmental and business-type activities as of June 30, 2006 amounts to \$494.6 million (net of depreciation). This investment in capital assets includes land, buildings, bridges, roads, equipment, and operational facilities.

Washington County, Maryland
Net Capital Assets
(Government Fund Basis)

Description	Governmental Activities		Business-type Activities		Total		% Change
	2006	2005	2006	2005	2006	2005	
Land and Land Improvement	6,108,535	5,896,629	47,429,078	42,651,098	53,537,613	48,547,727	10%
Infrastructure	286,704,572	310,306,918	-	-	286,704,572	310,306,918	(8%)
Building and Improvements	22,885,425	24,095,263	24,273,267	15,139,824	47,158,692	39,235,087	20%
Vehicles	3,007,838	2,997,280	1,090,707	1,383,378	4,098,545	4,380,658	(6%)
Machinery and Equipment	3,023,532	3,064,491	3,069,853	3,626,027	6,093,385	6,690,518	(9%)
Office Furniture/Equipment	3,320,806	3,827,221	489,201	280,041	3,810,007	4,107,262	(7%)
Treatment Plant	-	-	35,342,904	36,299,699	35,342,904	36,299,699	(3%)
Facilities, Lines, and Mains	-	-	57,830,039	58,397,937	57,830,0389	58,397,937	-
Total	325,050,708	350,187,802	169,525,049	157,778,004	494,575,757	507,965,806	(3%)

Major capital asset events during the current fiscal year included the following:



Additional information on the County's capital assets can be found in note 5 on pages 38-41 of this report.

Debt Administration

At the end of the current fiscal year, the County had total outstanding debt of \$160.3 million. This amount was comprised of debt backed by the full faith and credit of the County and user fees. The County's outstanding debt increased \$16.5 million during the current fiscal year. The estimated net increase resulted from \$9 million in principal payments and \$25.5 million in new borrowings. Funds borrowed were used for road and communication projects in the amount of \$4 million and \$6 million, respectively. The remaining \$15 million will be used for interim financing for the Airport Runway Extension Project.

Washington County, Maryland Outstanding Debt (Government Fund Basis)

Instrument Type	Governmental Activity		Business-type Activity		Total Outstanding Debt		% Change
	2006	2005	2006	2005	2006	2005	
General Obligation Bonds	90,825,268	86,931,927	34,247,748	21,709,280	125,073,016	108,641,207	15%
County Transportation Bonds	0	208,434	0	0	0	208,434	(100%)
Maryland State Loans	87,517	147,209	2,139,632	2,229,954	2,227,149	2,377,163	(6%)
Maryland Water Quality Bonds	1,905,037	1,934,391	31,049,615	30,646,910	32,954,652	32,581,301	1%
Total	92,817,822	89,221,961	67,436,995	54,586,144	160,254,817	143,808,105	11%

The County's credit rating was upgraded in 2006 by Standard and Poor's and Moody's Investors Services to AA- and Aa3, respectively, while Fitch Ratings graded the County at AA- in 2005 on its general obligation debt.

Under the Code of Public Local Law, the amount of general obligation debt the County may issue associated with Water Quality debt is limited to 10 percent of its total assessed valuation of all real estate in the county that is subject to taxation. The current estimated debt limitation for Water Quality debt is \$835 million, which is significantly in excess of the County's current general obligation debt.

Additional Information on the County's long-term debt can be found in note 8 on pages 43-46 of this report.

Economic Factors and Fiscal Year 2007 Budget/Rates

- ❑ As a result of long-term proactive financial management planning, the County was upgraded by Fitch Ratings, Standard & Poor's, and Moody's Investors Services to AA- and Aa3, respectively. These ratings reflect a growing and diverse economy, sound financial position, strong financial policies and a manageable capital plan.
- ❑ Housing trends are down in fiscal year 2007. These trends may result in shortfalls in excise tax, recordation tax, and transfer tax for the fiscal year ending 2007. Action has already been taken to restrict funds for the projected shortfalls particularly regarding excise tax revenue streams. Due to the County's good financial management practices and plans, it anticipates that all 2007 revenue obligations will be met in the Capital Improvement Fund despite current trends.
- ❑ During the current fiscal year, the County's general fund unreserved fund balance totaled \$31.9 million. The County has designated \$29.5 million of this for cash reserves. It is intended the cash reserve be used for emergencies and to protect the citizens against reducing service levels or raising taxes because of temporary

revenue shortfalls or unpredicted expenditures. This meets the County policy to maintain the minimum reserve level at 17% or two months of working capital.

- ❑ Water and sewer rates were increased for the 2007 budget year. The revenue requirements were increased an average of 2%-3% for most customers. This revenue increase is based on financial information formulated annually from the County's cost of service model.
- ❑ An 11% increase in the general refuse fee from \$39 to \$50 per ton and a 50% increase in the rubble and building debris fee from \$50 to \$75 was placed into effect for fiscal year 2007. This along with a projected increase in the waste stream increased revenue projections by \$3 million.
- ❑ The Governmental Accounting Standards Board has issued a new statement regarding the treatment of Other Post Employments Benefits (OPEB) for state and local governments. This statement takes effect in fiscal year 2008 for Washington County. OPEB includes postemployment healthcare, as well as other forms of postemployment benefits when provided separately from the County's pension plan. The impact of implementation is not fully known at this time. However Washington County has proactively estimated key financial data with the help of a consultant to start funding base line cost in the 2007 governmental funds budget. The County anticipates OPEB cost for enterprise funds to begin in 2008.
- ❑ The County reduced its tax cap from 10% down to 5% effective July 1, 2007. This cap reduction will result in a reduction of \$3 million in the taxable base. The cap reduction was projected over the next five years to reduce total real property revenues on average by 3% to 4% per year. With this reduction the fiscal year 2008 budget will contain challenges as the following items will continue to develop and transform:
 - Operating costs for new schools
 - Other post employment benefits for school system
 - Capital requests – increased pay-go funding
 - Slow down in revenues sensitive to economic conditions
 - Public Safety increases

Requests for Information

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Budget and Finance, 100 West Washington Street, Room 304, Hagerstown, Maryland 21740. Questions concerning the Washington County Board of Education should contact their offices at Commonwealth Ave, Hagerstown, Maryland 21740.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Primary Government			Component Unit	Total
	Governmental Activities	Business-type Activities	Total	Board of Education	
ASSETS					
Cash and short-term investments	\$ 5,440,630	\$ 14,522,037	\$ 19,962,667	\$ 14,393,594	\$ 34,356,261
Investments	121,796,556	263,360	122,059,916	8,617,099	130,677,015
Investment in capital lease	125,629	-	125,629	-	125,629
Property taxes receivable, net of allowance	169,398	-	169,398	-	169,398
Accounts receivable, net of allowance	1,028,264	3,214,331	4,242,595	-	4,242,595
Interest receivable	697,221	5,213	702,434	-	702,434
Unbilled receivables	113,515	1,670,760	1,784,275	-	1,784,275
Internal balances	(25,261,314)	25,261,314	-	8,174	8,174
Due from other governmental agencies	34,037,014	7,669,963	41,706,977	4,146,949	45,853,926
Other receivables	-	-	-	695,467	695,467
Inventories	346,574	332,778	679,352	243,383	922,735
Prepaid items	-	66,749	66,749	4,280,872	4,347,621
Recoverable disbursements	270,307	-	270,307	-	270,307
Notes receivable	818,914	-	818,914	-	818,914
Bond issuance costs	676,402	186,155	862,557	-	862,557
Projects under construction	15,587,497	39,839,407	55,426,904	18,725,869	74,152,773
Property, plant, and equipment, net	325,050,708	169,525,049	494,575,757	107,335,141	601,910,898
TOTAL ASSETS	\$ 480,897,315	\$ 262,557,116	\$ 743,454,431	\$ 158,446,548	\$ 901,900,979
LIABILITIES					
Current:					
Current maturities of long-term obligations	\$ 6,093,931	\$ 4,878,680	\$ 10,972,611	\$ -	\$ 10,972,611
Current maturities of capital lease obligations	-	227,915	227,915	191,510	419,425
Accounts payable	8,397,645	3,462,874	11,860,519	5,849,682	17,710,201
Accrued expenses	1,762,778	381,578	2,144,356	9,255,710	11,400,066
Accrued interest payable	1,823,854	6,514,998	8,338,852	-	8,338,852
Allowance for tax adjustments	100,000	-	100,000	-	100,000
Deferred revenues	5,932,681	1,409,961	7,342,642	4,761,076	12,103,718
Compensated absences	1,301,324	330,065	1,631,389	278,573	1,909,962
Post retirement benefits	123,805	-	123,805	-	123,805
Landfill closure and post-closure costs	-	2,763,980	2,763,980	-	2,763,980
Other liabilities	5,873,677	953,482	6,827,159	-	6,827,159
Liabilities for unpaid claims	2,700,000	-	2,700,000	-	2,700,000
Noncurrent:					
Deferred revenues	-	7,710,059	7,710,059	-	7,710,059
Compensated absences	351,885	158,676	510,561	4,385,804	4,896,365
Post retirement benefits	729,491	-	729,491	-	729,491
Long-term obligations, net	86,723,891	62,558,315	149,282,206	-	149,282,206
Capital lease obligations	-	129,077	129,077	201,617	330,694
Landfill closure and post-closure costs	-	21,806,627	21,806,627	-	21,806,627
TOTAL LIABILITIES	\$ 121,914,962	\$ 113,286,287	\$ 235,201,249	\$ 24,923,972	\$ 260,125,221
NET ASSETS					
Invested in capital assets, net of related debt	\$ 309,402,007	\$ 142,300,560	\$ 451,702,567	\$ 125,667,883	\$ 577,370,450
Restricted for:					
John Howard Trust	-	263,360	263,360	-	263,360
Capital projects	23,449,868	730,091	24,179,959	-	24,179,959
Community Partnership	504,361	-	504,361	-	504,361
Foreign Trade Zone	6,692	-	6,692	-	6,692
Narcotics Task Force (NTF)	339,746	-	339,746	-	339,746
Inmate reserve	302,776	-	302,776	-	302,776
Unrestricted	24,976,903	5,976,818	30,953,721	7,854,693	38,808,414
TOTAL NET ASSETS	\$ 358,982,353	\$ 149,270,829	\$ 508,253,182	\$ 133,522,576	\$ 641,775,758

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Charges for Services	Program Revenues
			Operating Grants and Contributions
Primary Government:			
Governmental activities:			
General government	\$ 46,405,494	\$ 2,487,673	\$ 4,809,247
Public safety	21,800,458	524,371	-
Health	2,192,664	-	-
Social services	1,153,144	-	-
Education (includes payment to the Board of Education of \$90,076,362)	98,965,237	-	-
Parks, recreation, and culture	4,667,664	343,428	-
Conservation of natural resources	447,286	-	-
General operations	705,413	-	-
Intergovernmental	1,420,791	-	-
Community promotion	2,073,119	-	1,960,536
Highways and streets	7,086,380	-	8,638,360
Interest on long-term debt	3,665,645	-	-
Total governmental activities	<u>\$ 190,583,295</u>	<u>\$ 3,355,472</u>	<u>\$ 15,408,143</u>
Business-type activities:			
Water quality	\$ 10,694,397	\$ 10,299,719	\$ -
Solid waste	12,093,850	9,841,965	-
Public transit	1,963,195	301,010	1,085,463
Airport	2,795,170	1,471,406	30,771
Black Rock Golf Course	1,364,799	1,186,288	-
Total business-type activities:	<u>\$ 28,911,411</u>	<u>\$ 23,100,388</u>	<u>\$ 1,116,234</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 219,494,706</u>	<u>\$ 26,455,860</u>	<u>\$ 16,524,377</u>
Component unit:			
Public school system	\$ 214,239,121	\$ 9,782,405	\$ 39,137,878
TOTAL COMPONENT UNIT	<u>\$ 214,239,121</u>	<u>\$ 9,782,405</u>	<u>\$ 39,137,878</u>

General revenues:

Taxes:

- Property taxes, levied for general purposes
- Income taxes
- Other local taxes

Income on investments

Reimbursed expenses

Miscellaneous revenues

Payment from Washington County-unrestricted contributions

Unrestricted grants and contributions

Special items-gain on disposal of assets

Transfers

TOTAL GENERAL REVENUES, SPECIAL ITEMS, AND TRANSFERS

CHANGE IN NET ASSETS

NET ASSETS-BEGINNING OF YEAR

NET ASSETS-END OF YEAR

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Capital Grants and Contributions</u>	<u>Primary Government</u>			<u>Component Unit</u>	<u>Total</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Board of Education</u>	
\$ 5,522,059	\$ (33,586,515)	\$ -	\$ (33,586,515)	\$ -	\$ (33,586,515)
170,000	(21,106,087)	-	(21,106,087)	-	(21,106,087)
-	(2,192,664)	-	(2,192,664)	-	(2,192,664)
-	(1,153,144)	-	(1,153,144)	-	(1,153,144)
2,174,479	(96,790,758)	-	(96,790,758)	-	(96,790,758)
256,435	(4,067,801)	-	(4,067,801)	-	(4,067,801)
-	(447,286)	-	(447,286)	-	(447,286)
-	(705,413)	-	(705,413)	-	(705,413)
-	(1,420,791)	-	(1,420,791)	-	(1,420,791)
-	(112,583)	-	(112,583)	-	(112,583)
2,169,411	3,721,391	-	3,721,391	-	3,721,391
-	(3,665,645)	-	(3,665,645)	-	(3,665,645)
<u>\$ 10,292,384</u>	<u>\$ (161,527,296)</u>	<u>\$ -</u>	<u>\$ (161,527,296)</u>	<u>\$ -</u>	<u>\$ (161,527,296)</u>
\$ 1,962,051	\$ -	\$ 1,567,373	\$ 1,567,373	\$ -	\$ 1,567,373
-	-	(2,251,885)	(2,251,885)	-	(2,251,885)
43,733	-	(532,989)	(532,989)	-	(532,989)
17,371,395	-	16,078,402	16,078,402	-	16,078,402
-	-	(178,511)	(178,511)	-	(178,511)
<u>\$ 19,377,179</u>	<u>\$ -</u>	<u>\$ 14,682,390</u>	<u>\$ 14,682,390</u>	<u>\$ -</u>	<u>\$ 14,682,390</u>
<u>\$ 29,669,563</u>	<u>\$ (161,527,296)</u>	<u>\$ 14,682,390</u>	<u>\$ (146,844,906)</u>	<u>\$ -</u>	<u>\$ (146,844,906)</u>
\$ 27,315	\$ -	\$ -	\$ -	\$ (165,291,523)	\$ (165,291,523)
<u>\$ 27,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (165,291,523)</u>	<u>\$ (165,291,523)</u>
	\$ 86,473,894	\$ -	\$ 86,473,894	\$ -	\$ 86,473,894
	79,280,690	-	79,280,690	-	79,280,690
	18,444,386	-	18,444,386	-	18,444,386
	4,892,028	64,292	4,956,320	762,669	5,718,989
	823,548	-	823,548	-	823,548
	514,362	-	514,362	562,373	1,076,735
	-	-	-	88,212,565	88,212,565
	-	-	-	85,590,628	85,590,628
	73,705	13,746	87,451	-	87,451
	(5,093,031)	5,093,031	-	-	-
	<u>\$ 185,409,582</u>	<u>\$ 5,171,069</u>	<u>\$ 190,580,651</u>	<u>\$ 175,128,235</u>	<u>\$ 365,708,886</u>
	\$ 23,882,286	\$ 19,853,459	\$ 43,735,745	\$ 9,836,712	\$ 53,572,457
	335,100,067	129,417,370	464,517,437	123,685,864	588,203,301
	<u>\$ 358,982,353</u>	<u>\$ 149,270,829</u>	<u>\$ 508,253,182</u>	<u>\$ 133,522,576</u>	<u>\$ 641,775,758</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	General Fund	Foreign Trade Zone	Community Partnership Fund	Inmate Welfare Fund	Agricultural Education Center	Highway Fund	Capital Projects Fund	Total Governmental Funds
ASSETS								
Cash	\$ 34,639	\$ 6,692	\$ 1,709,832	\$ 316,871	\$ 162,351	\$ 3,210,245	\$ -	\$ 5,440,630
Investments	121,796,556	-	-	-	-	-	-	121,796,556
Property taxes receivable, net of allowance	169,398	-	-	-	-	-	-	169,398
Accounts receivable	470,089	-	-	-	-	14,020	544,155	1,028,264
Interest receivable	697,221	-	-	-	-	-	-	697,221
Unbilled receivables	103,099	-	-	-	-	10,416	-	113,515
Due from other funds	760,894	-	-	-	-	-	62,866,931	63,627,825
Due from other governmental agencies	31,606,831	-	285,903	-	-	1,336,515	807,765	34,037,014
Inventories	27,978	-	-	-	-	318,596	-	346,574
Recoverable disbursements	231,259	-	-	-	-	39,048	-	270,307
Notes receivable	818,914	-	-	-	-	-	-	818,914
TOTAL ASSETS	\$ 156,716,878	\$ 6,692	\$ 1,995,735	\$ 316,871	\$ 162,351	\$ 4,928,840	\$ 64,218,851	\$ 228,346,218
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable	\$ 3,435,431	\$ -	\$ 232,222	\$ 12,784	\$ 3,397	\$ 464,176	\$ 4,249,635	\$ 8,397,645
Due to other funds	88,889,139	-	-	-	-	-	-	88,889,139
Accrued expenses	1,606,451	-	11,456	1,311	426	143,134	-	1,762,778
Accrued interest	23,044	-	-	-	-	-	-	23,044
Allowance for adjustments to assessments	100,000	-	-	-	-	-	-	100,000
Other liabilities	5,873,677	-	-	-	-	-	-	5,873,677
Liabilities for unpaid claims	2,700,000	-	-	-	-	-	-	2,700,000
Deferred revenue	22,223,454	-	1,247,696	-	-	-	-	23,471,150
TOTAL LIABILITIES	\$ 124,851,196	\$ -	\$ 1,491,374	\$ 14,095	\$ 3,823	\$ 607,310	\$ 4,249,635	\$ 131,217,433
FUND BALANCES:								
Reserved for:								
Inventories	\$ 27,978	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,978
Long-term receivables	1,369,050	-	-	-	-	-	-	1,369,050
Unemployment	17,500	-	-	-	-	-	-	17,500
Program services	502,104	-	-	-	-	-	-	502,104
Unreserved:								
Designated	29,545,335	6,692	504,361	302,776	158,528	4,321,530	59,969,216	94,808,438
Undesignated	403,715	-	-	-	-	-	-	403,715
TOTAL FUND BALANCES	\$ 31,865,682	\$ 6,692	\$ 504,361	\$ 302,776	\$ 158,528	\$ 4,321,530	\$ 59,969,216	\$ 97,128,785
TOTAL LIABILITIES AND FUND BALANCES	\$ 156,716,878	\$ 6,692	\$ 1,995,735	\$ 316,871	\$ 162,351	\$ 4,928,840	\$ 64,218,851	\$ 228,346,218

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

RECONCILIATION OF FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

JUNE 30, 2006

Fund balances governmental funds \$ 97,128,785

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Fixed assets, net 325,050,708
Construction in progress 15,587,497

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Investment in capital leases 125,629
Deferred charges 676,402
Deferred tax revenues 17,538,469

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:

Long-term debt (92,817,822)
Accrued interest (1,800,810)
Compensated absences and post-retirement benefits (2,506,505)

Net Assets Governmental Activities \$ 358,982,353

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Foreign Trade Zone</u>	<u>Community Partnership Fund</u>	<u>Inmate Welfare Fund</u>	<u>Agricultural Education Center</u>	<u>Highway Fund</u>	<u>Capital Projects Funds</u>	<u>Total Government Funds</u>
REVENUES								
General property taxes	\$ 86,392,611	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 86,392,611
Other local taxes	75,975,129	-	-	-	-	-	-	75,975,129
Licenses and permits	1,736,817	-	-	-	-	-	-	1,736,817
Court costs and fines	225,440	-	-	-	-	-	-	225,440
Charges for services	580,146	-	-	-	-	-	-	580,146
Revenue from uses of property	5,543,264	-	-	138,148	23,685	-	-	5,705,097
Reimbursed expenses	540,482	-	-	-	-	283,066	-	823,548
Miscellaneous revenues	378,689	-	-	331,583	970	22,558	629,851	1,363,651
Shared taxes and grants	4,809,246	-	1,960,536	-	-	8,638,360	13,988,979	29,397,121
TOTAL REVENUES	\$ 176,181,824	\$ -	\$ 1,960,536	\$ 469,731	\$ 24,655	\$ 8,943,984	\$ 14,618,830	\$ 202,199,560
EXPENDITURES								
Current:								
General government	\$ 15,777,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,777,604
Public safety	21,882,781	-	-	-	-	-	-	21,882,781
Health	2,192,664	-	-	-	-	-	-	2,192,664
Social services	1,153,144	-	-	-	-	-	-	1,153,144
Education	90,449,992	-	-	-	-	-	-	90,449,992
Parks, recreation and culture	4,322,750	-	-	-	114,303	-	-	4,437,053
Natural resources	468,085	-	-	-	-	-	-	468,085
Intergovernmental	1,420,791	-	-	-	-	-	-	1,420,791
General operations	311,667	-	-	393,746	-	-	-	705,413
Community promotion	-	-	2,075,243	-	-	-	-	2,075,243
Highways and streets	-	-	-	-	-	6,764,637	-	6,764,637
Debt Service:								
Debt service	10,565,211	-	-	-	-	-	-	10,565,211
Capital Outlay:								
General government	-	-	-	-	-	-	4,431,237	4,431,237
Public works	-	-	-	-	-	-	7,847,364	7,847,364
Education	-	-	-	-	-	-	8,515,245	8,515,245
Parks and recreation	-	-	-	-	-	-	214,771	214,771
TOTAL EXPENDITURES	\$ 148,544,689	\$ -	\$ 2,075,243	\$ 393,746	\$ 114,303	\$ 6,764,637	\$ 21,008,617	\$ 178,901,235
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ 27,637,135	\$ -	\$ (114,707)	\$ 75,985	\$ (89,648)	\$ 2,179,347	\$ (6,389,787)	\$ 23,298,325
OTHER FINANCING SOURCES (USES)								
Transfers in	\$ -	\$ -	\$ 123,680	\$ -	\$ 134,620	\$ -	\$ 17,804,010	\$ 18,062,310
Transfers out	(21,615,511)	-	-	-	-	(1,539,830)	-	(23,155,341)
Proceeds of bond sale	-	-	-	-	-	-	10,500,000	10,500,000
TOTAL OTHER FINANCING SOURCES (USES)	\$ (21,615,511)	\$ -	\$ 123,680	\$ -	\$ 134,620	\$ (1,539,830)	\$ 28,304,010	\$ 5,406,969
NET CHANGES IN FUND BALANCES	\$ 6,021,624	\$ -	\$ 8,973	\$ 75,985	\$ 44,972	\$ 639,517	\$ 21,914,223	\$ 28,705,294
FUND BALANCES - BEGINNING	\$ 25,844,058	\$ 6,692	\$ 495,388	\$ 226,791	\$ 113,556	\$ 3,682,013	\$ 38,054,993	\$ 68,423,491
FUND BALANCES - ENDING	\$ 31,865,682	\$ 6,692	\$ 504,361	\$ 302,776	\$ 158,528	\$ 4,321,530	\$ 59,969,216	\$ 97,128,785

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2006

Net change in fund balances in governmental funds \$ 28,705,294

Amounts reported for governmental activities in the statement
of activities are different because:

Governmental funds report capital outlay as expenditures.
However, in the statement of activities, the cost of those assets
is allocated over their estimated useful lives as depreciation expense.
This is the amount by which depreciation exceeded capital outlay in
the current period. (18,366,599)

In the statement of activities, only the gain on the sale of assets is reported,
whereas in the governmental funds, the proceeds from the sale increase
financial resources. Thus, the change in net assets differs from the
change in fund balance by the cost of the assets sold. (34,797)

Bond and capital lease proceeds provide current financial resources to
governmental funds, but issuing debt increases long-term liabilities in the
statement of net assets. Repayment of bond and capital lease principal is
an expenditure in the governmental funds, but the repayments reduce
long-term liabilities in the statement of net assets. This is the amount by
which proceeds exceeded repayments. (2,846,842)

In the statement of activities, compensated absences and post-retirement
benefits are measured by the amounts earned during the year. In the
governmental funds, however, expenditures are measured by the amount
of financial resources used. This year, compensated absences and
post-retirement benefits earned exceeded financial resources used. (46,178)

Revenues and expenditures are reported in the statement of activities on
the accrual basis and in the governmental funds when they provide or
use current financial resources. This is the net difference of revenues
and expenditures recognized between the governmental funds and
statement of activities. 16,471,408

Change in net assets of governmental activities \$ 23,882,286

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

JUNE 30, 2006

Business Type Activities - Enterprise Funds

	Water Quality Fund	Solid Waste Fund	Public Transit Fund	Airport Fund	Black Rock Golf Course	Totals
ASSETS						
Current Assets:						
Cash and short-term investments	\$ 5,868,196	\$ 4,608,480	\$ -	\$ 4,044,461	\$ 900	\$ 14,522,037
Accounts receivable	1,370,817	1,670,152	12,010	160,542	810	3,214,331
Interest receivable	-	-	-	-	5,213	5,213
Unbilled receivables	1,158,571	508,109	653	3,427	-	1,670,760
Due from other governmental agencies	766,889	-	832,008	6,071,066	-	7,669,963
Due from other funds	10,553,751	8,706,846	-	7,123,782	-	26,384,379
Inventories	185,793	-	63,779	-	83,206	332,778
Other current assets	23,293	22,797	1,328	7,989	11,342	66,749
Restricted assets - investments	-	-	-	-	263,360	263,360
Total current assets	\$ 19,927,310	\$ 15,516,384	\$ 909,778	\$ 17,411,267	\$ 364,831	\$ 54,129,570
Noncurrent Assets:						
Bond issuance costs	\$ 186,155	\$ -	\$ -	\$ -	\$ -	\$ 186,155
Projects under construction	4,728,341	38,764	1,148	35,071,154	-	39,839,407
Property plant and equipment	127,904,454	48,956,643	4,317,748	51,131,943	4,613,180	236,923,968
Accumulated depreciation	(31,484,075)	(15,183,996)	(3,196,110)	(15,727,414)	(1,807,324)	(67,398,919)
Total noncurrent assets	\$ 101,334,875	\$ 33,811,411	\$ 1,122,786	\$ 70,475,683	\$ 2,805,856	\$ 209,550,611
TOTAL ASSETS	\$ 121,262,185	\$ 49,327,795	\$ 2,032,564	\$ 87,886,950	\$ 3,170,687	\$ 263,680,181
LIABILITIES						
Current Liabilities:						
Current maturities of long-term obligations	\$ 3,347,866	\$ 771,700	\$ -	\$ 759,114	\$ -	\$ 4,878,680
Current maturities of capital lease obligations	12,720	215,195	-	-	-	227,915
Accounts payable	1,300,133	205,514	33,659	1,897,285	26,283	3,462,874
Accrued expenses	212,680	53,281	48,173	23,506	43,938	381,578
Accrued interest	6,004,261	254,224	-	256,513	-	6,514,998
Due to other funds	-	-	282,269	86,644	127,006	495,919
Deferred revenue	562,730	545,845	29,451	265,435	6,500	1,409,961
Compensated absences	170,468	71,836	35,645	30,079	22,037	330,065
Landfill closure and post-closure costs	-	2,763,980	-	-	-	2,763,980
Other liabilities	7,300	-	-	946,182	-	953,482
Total current liabilities	\$ 11,618,158	\$ 4,881,575	\$ 429,197	\$ 4,264,758	\$ 225,764	\$ 21,419,452
Non Current Liabilities:						
Due to other funds	\$ -	\$ -	\$ -	\$ 509,386	\$ 117,760	\$ 627,146
Deferred revenue	-	-	-	7,710,059	-	7,710,059
Compensated absences	93,483	15,084	19,866	8,595	21,648	158,676
Bonds and long-term debt, net	29,368,139	16,024,658	-	17,165,518	-	62,558,315
Capital lease obligations	-	129,077	-	-	-	129,077
Landfill closure and post-closure costs	-	21,806,627	-	-	-	21,806,627
Total noncurrent liabilities	\$ 29,461,622	\$ 37,975,446	\$ 19,866	\$ 25,393,558	\$ 139,408	\$ 92,989,900
TOTAL LIABILITIES	\$ 41,079,780	\$ 42,857,021	\$ 449,063	\$ 29,658,316	\$ 365,172	\$ 114,409,352
NET ASSETS						
Invested in capital assets, net of related debt	\$ 69,014,464	\$ 16,806,403	\$ 1,122,786	\$ 52,551,051	\$ 2,805,856	\$ 142,300,560
Unrestricted	10,573,472	(10,471,251)	460,715	5,677,583	(263,701)	5,976,818
Restricted - capital projects	594,469	135,622	-	-	-	730,091
Restricted - John Howard Trust	-	-	-	-	263,360	263,360
TOTAL NET ASSETS	\$ 80,182,405	\$ 6,470,774	\$ 1,583,501	\$ 58,228,634	\$ 2,805,515	\$ 149,270,829

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2006

	Business-Type Activities - Enterprise Funds					Totals
	Water Quality Fund	Solid Waste Fund	Public Transit Fund	Airport Fund	Black Rock Golf Course	
OPERATING REVENUES						
Charges for services	\$ 10,288,103	\$ 9,789,449	\$ 299,540	\$ 1,461,406	\$ 1,185,025	\$ 23,023,523
Miscellaneous	11,616	52,516	1,470	10,000	1,263	76,865
TOTAL OPERATING REVENUES	<u>\$ 10,299,719</u>	<u>\$ 9,841,965</u>	<u>\$ 301,010</u>	<u>\$ 1,471,406</u>	<u>\$ 1,186,288</u>	<u>\$ 23,100,388</u>
OPERATING EXPENSES						
Salaries and wages	\$ 2,832,325	\$ 1,149,244	\$ 980,633	\$ 498,146	\$ 439,449	\$ 5,899,797
Fringe benefits	1,085,604	347,746	248,250	149,112	140,235	1,970,947
Utilities	788,801	50,851	28,305	151,884	55,489	1,075,330
Insurance	127,773	50,163	106,035	45,356	29,448	358,775
Repairs and maintenance	241,731	5,230	78,001	47,077	65,777	437,816
Supplies	285,736	89,694	27,530	16,236	4,058	423,254
Cost of goods sold	-	-	-	-	197,209	197,209
Contracted services	379,064	1,525,907	108,642	173,366	5,106	2,192,085
Rentals and leases	20,470	2,315	33,974	3,880	59,828	120,467
Other operating	1,255,414	5,852,292	207,254	103,725	209,758	7,628,443
Uncollectible accounts	49,771	11,810	-	(1,213)	-	60,368
Depreciation	2,306,903	2,455,627	144,571	1,238,233	158,442	6,303,776
TOTAL OPERATING EXPENSES	<u>\$ 9,373,592</u>	<u>\$ 11,540,879</u>	<u>\$ 1,963,195</u>	<u>\$ 2,425,802</u>	<u>\$ 1,364,799</u>	<u>\$ 26,668,267</u>
OPERATING INCOME (LOSS)	<u>\$ 926,127</u>	<u>\$ (1,698,914)</u>	<u>\$ (1,662,185)</u>	<u>\$ (954,396)</u>	<u>\$ (178,511)</u>	<u>\$ (3,567,879)</u>
OTHER INCOME (EXPENSE)						
Interest expense	\$ (1,320,805)	\$ (552,971)	\$ -	\$ (369,368)	\$ -	\$ (2,243,144)
Interest income	51,762	2,453	(2)	1,036	9,043	64,292
Gain (loss) on disposal of assets	1,630	-	15,450	(4,474)	1,140	13,746
TOTAL OTHER INCOME (EXPENSE)	<u>\$ (1,267,413)</u>	<u>\$ (550,518)</u>	<u>\$ 15,448</u>	<u>\$ (372,806)</u>	<u>\$ 10,183</u>	<u>\$ (2,165,106)</u>
(LOSS) BEFORE OPERATING TRANSFERS	<u>\$ (341,286)</u>	<u>\$ (2,249,432)</u>	<u>\$ (1,646,737)</u>	<u>\$ (1,327,202)</u>	<u>\$ (168,328)</u>	<u>\$ (5,732,985)</u>
OPERATING TRANSFERS	3,120,000	950,000	431,635	279,222	-	4,780,857
GRANTS FOR OPERATIONS	-	-	1,085,463	30,771	-	1,116,234
NET INCOME (LOSS) BEFORE CAPITAL TRANSFERS AND GRANTS	<u>\$ 2,778,714</u>	<u>\$ (1,299,432)</u>	<u>\$ (129,639)</u>	<u>\$ (1,017,209)</u>	<u>\$ (168,328)</u>	<u>\$ 164,106</u>
CAPITAL TRANSFERS	63,000	-	89,500	159,674	-	312,174
GRANTS FOR CAPITAL PROJECTS	1,962,051	-	43,733	17,371,395	-	19,377,179
NET INCOME (LOSS)	<u>\$ 4,803,765</u>	<u>\$ (1,299,432)</u>	<u>\$ 3,594</u>	<u>\$ 16,513,860</u>	<u>\$ (168,328)</u>	<u>\$ 19,853,459</u>
NET ASSETS- BEGINNING	<u>75,378,640</u>	<u>7,770,206</u>	<u>1,579,907</u>	<u>41,714,774</u>	<u>2,973,843</u>	<u>129,417,370</u>
NET ASSETS- ENDING	<u>\$ 80,182,405</u>	<u>\$ 6,470,774</u>	<u>\$ 1,583,501</u>	<u>\$ 58,228,634</u>	<u>\$ 2,805,515</u>	<u>\$ 149,270,829</u>

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2006**

	<u>Water Quality</u>	<u>Solid Waste</u>	<u>Public Transit</u>	<u>Airport</u>	<u>Black Rock Golf Course</u>	<u>Total</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Receipts from customers	\$ 10,074,941	\$ 8,433,062	\$ 443,717	\$ 4,372,473	\$ 1,176,760	\$ 24,500,953
Payments to suppliers for goods and services	(2,419,531)	(3,219,073)	(610,715)	(535,298)	(624,337)	(7,408,954)
Payments to employees for services	(4,007,586)	(1,542,797)	(1,250,696)	262,655	(594,900)	(7,133,324)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 3,647,824	\$ 3,671,192	\$ (1,417,694)	\$ 4,099,830	\$ (42,477)	\$ 9,958,675
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</u>						
Operating contributions	\$ 3,120,000	\$ 950,000	\$ 1,517,099	\$ 309,993	\$ -	\$ 5,897,092
Increase due to/from other funds	(10,072,336)	(8,706,846)	(241,195)	(7,410,010)	32,798	(26,397,589)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	\$ (6,952,336)	\$ (7,756,846)	\$ 1,275,904	\$ (7,100,017)	\$ 32,798	\$ (20,500,497)
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>						
Interest paid on notes and bonds payable	\$ (769,612)	\$ (501,069)	\$ -	\$ (158,334)	\$ -	\$ (1,429,015)
Acquisition and construction of capital assets	(4,362,426)	(962,759)	(6,891)	(25,213,076)	(11,341)	(30,556,493)
Contribution for capital acquisitions	2,025,051	-	133,233	17,531,069	-	19,689,353
Principal payments on notes and bonds payable	(3,746,218)	(686,813)	-	(120,322)	-	(4,553,353)
Proceeds from issuance of notes and bonds payable	-	2,235,803	-	15,000,000	-	17,235,803
Payments for advanced refunding of bonds	(1,564)	-	-	-	-	(1,564)
Payments under capital lease obligations	(12,178)	(206,068)	-	-	-	(218,246)
Proceeds from sale of capital assets	1,630	-	15,450	4,275	1,140	22,495
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (6,865,317)	\$ (120,906)	\$ 141,792	\$ 7,043,612	\$ (10,201)	\$ 188,980
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Interest on investments	\$ 51,762	\$ 2,453	\$ (2)	\$ 1,036	\$ -	\$ 55,249
Purchase of U.S. Government Agency Notes	-	-	-	-	(263,360)	(263,360)
Maturities of U.S. Government Agency Notes	-	-	-	-	264,000	264,000
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	\$ 51,762	\$ 2,453	\$ (2)	\$ 1,036	\$ 640	\$ 55,889
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (10,118,067)	\$ (4,204,107)	\$ -	\$ 4,044,461	\$ (19,240)	\$ (10,296,953)
<u>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	15,986,263	8,812,587	-	-	20,140	24,818,990
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	\$ 5,868,196	\$ 4,608,480	\$ -	\$ 4,044,461	\$ 900	\$ 14,522,037
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</u>						
Operating income (loss)	\$ 926,127	\$ (1,698,914)	\$ (1,662,185)	\$ (954,396)	\$ (178,511)	\$ (3,567,879)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense and amortization	2,325,955	2,455,627	144,571	1,238,233	158,442	6,322,828
Changes in assets and liabilities:						
Accounts receivable	(475,907)	(1,520,397)	(6,442)	(48,444)	(78)	(2,051,268)
Unbilled receivables	(120,656)	66,649	(134)	(1,777)	-	(55,918)
Due to/from other governmental agencies	115,375	-	134,799	(3,035,721)	-	(2,785,547)
Inventories	(24,257)	-	768	-	(7,043)	(30,532)
Accounts payable	734,433	(1,154,873)	(21,742)	5,013	9,379	(427,790)
Accrued expenses	(89,657)	(45,807)	(21,813)	909,913	(15,216)	737,420
Landfill closure and post-closure costs	-	5,524,062	-	-	-	5,524,062
Deferred revenues	256,411	44,845	14,484	5,987,009	(9,450)	6,293,299
Net cash provided (used) by operating activities	\$ 3,647,824	\$ 3,671,192	\$ (1,417,694)	\$ 4,099,830	\$ (42,477)	\$ 9,958,675

The Notes to Financial statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

JUNE 30, 2006

	Agency Funds	Pension Trust Fund	LOSAP	Private-Purpose Trust Fund	Total
ASSETS					
Cash and short-term investments	\$ 2,577,266	\$ 1,175,425	\$ 141,415	\$ 37,715	\$ 3,931,821
Interest and dividends receivable	-	116,695	9,277	-	125,972
Investments, at fair value					
U.S. Government obligations	-	7,770,089	578,072	37,706	8,385,867
Corporate bonds	-	3,359,236	253,595	-	3,612,831
Corporate stock	-	16,538,253	-	-	16,538,253
Municipal obligations	-	155,162	-	-	155,162
Fixed income funds	-	977,415	48,871	-	1,026,286
Equity funds	-	11,504,342	2,022,925	-	13,527,267
Accounts receivable	6,355	-	-	-	6,355
Due from other funds	-	-	-	5	5
TOTAL ASSETS	\$ 2,583,621	\$ 41,596,617	\$ 3,054,155	\$ 75,426	\$ 47,309,819
LIABILITIES					
Accounts payable	\$ 106,132	\$ -	\$ -	\$ -	\$ 106,132
Due to other funds	8,174	-	-	-	8,174
Due to student groups	2,233,665	-	-	-	2,233,665
Undistributed Tax Proceeds	149,954	-	-	-	149,954
Due To Other Agencies - NTF	85,696	-	-	-	85,696
TOTAL LIABILITIES	\$ 2,583,621	\$ -	\$ -	\$ -	\$ 2,583,621
NET ASSETS					
Reserved for employee pension benefits	-	\$ 41,596,617	-	-	41,596,617
Reserved for LOSAP	-	-	3,054,155	-	3,054,155
Reserved for scholarships	-	-	-	75,426	75,426
TOTAL NET ASSETS	\$ -	\$ 41,596,617	\$ 3,054,155	\$ 75,426	\$ 44,726,198

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

YEAR ENDED JUNE 30, 2006

	Pension Trust Fund	LOSAP	Private Purpose Trust Fund	Total
ADDITIONS				
Contributions:				
Employer	\$ 2,731,117	\$ 920,000	\$ -	\$ 3,651,117
Plan members	1,417,830	-	-	1,417,830
Net in-kind	28,471	2,070	-	30,541
Gifts and contributions	-	-	14,712	14,712
TOTAL CONTRIBUTIONS	\$ 4,177,418	\$ 922,070	\$ 14,712	\$ 5,114,200
Investment Income:				
Net appreciation (depreciation) in fair value of investments	\$ (222,619)	\$ (11,740)	\$ -	\$ (234,359)
Interest and dividends	1,470,913	94,365	3,266	1,568,544
Gain on sale of investments	1,465,222	83,299	-	1,548,521
TOTAL INVESTMENT INCOME	\$ 2,713,516	\$ 165,924	\$ 3,266	\$ 2,882,706
TOTAL ADDITIONS	\$ 6,890,934	\$ 1,087,994	\$ 17,978	\$ 7,996,906
DEDUCTIONS				
Benefits	\$ 2,022,322	\$ -	\$ -	\$ 2,022,322
Scholarships	-	-	17,614	17,614
Administrative expenses	155,209	6,967	-	162,176
TOTAL DEDUCTIONS	\$ 2,177,531	\$ 6,967	\$ 17,614	\$ 2,202,112
NET INCREASE IN ASSETS	\$ 4,713,403	\$ 1,081,027	\$ 364	\$ 5,794,794
NET ASSETS - BEGINNING OF YEAR	36,883,214	1,973,128	75,062	38,931,404
NET ASSETS - END OF YEAR	\$ 41,596,617	\$ 3,054,155	\$ 75,426	\$ 44,726,198

The Notes to Financial Statements are an integral part of this statement.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The Financial Reporting Entity:

The primary government is the County Commissioners of Washington County, referred to herein as the County or the County Commissioners. The County is governed by an elected five-member board.

The accompanying financial statements are presented as of June 30, 2006 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to local governments. The Governmental Accounting Standards Board (GASB) is the standard setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the *GASB's Codification of Governmental Accounting and Financial Reporting Standards* (GASB Codification).

Reporting Entity:

The accompanying financial statements comply with the provisions of the GASB Standards in that the financial statements include all organizations, activities, functions and component units for which the County (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the County's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the County.

Based on the foregoing, the County's financial reporting entity includes all funds, agencies, boards and commissions that are part of the primary government, and the component units discussed below.

Blended Component Units - The Washington County Public Golf Corporation (Black Rock Golf Course) is governed by a five-member board appointed by the County Commissioners. Although it is legally separate from the County, the Washington County Public Golf Corporation is reported as if it were part of the primary government because its sole purpose is to operate the golf course owned by the County. The Employee's Retirement Plan of Washington County and the Volunteer Length of Service Award program are also reported as blended component units.

Discretely Presented Component Unit - The component unit column in the government wide financial statements includes the financial data of the County's other component unit, the Board of Education of Washington County, referred to herein as Board, Board of Education or School System. The Board of Education is elected by the voters of Washington County.

The Board of Education operates the public schools in the County. The Board may not issue debt or levy taxes. The County issues debt and levies taxes to provide capital and operating funds to the Board. The State of Maryland also provides significant capital and operating funds to the Board.

Complete financial statements of the discretely presented individual component unit can be obtained from its administrative office:

Washington County Board of Education
P.O. Box 730
Hagerstown, Maryland 21741

Related Organizations - The County Commissioners are also responsible for appointing the members of the boards of various other organizations, but the County's accountability for these organizations does not extend beyond making the appointments. Several of these other organizations are funded by federal or state government.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect on interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers non-grant revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxpayer-assessed income, gross receipts, and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable and their validity seems certain.

The County's pension plan's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

The government reports the following major governmental funds:

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

The Foreign Trade Zone Fund is a special revenue fund used to account for all transactions of the Foreign Trade Zone Commission. The Foreign Trade Zone Commission was established to allow a reduction or elimination of import taxes for County businesses within the 1,866 acres of the zone.

The Community Partnership Fund is a special revenue fund used to account for all activities conducted by this department of the County. The Community Partnership's core function is to coordinate services and identify needs of the children, youth and families of Washington County.

The Inmate Welfare Fund is a special revenue fund used to account for commissary activities at the Washington County Detention Center and other inmate related revenues and expenses.

The Agricultural Education Center Fund is a special revenue fund used to account for all transactions of the Agricultural Education Center. The purpose of this Center is to promote agricultural pursuits in Washington County and to educate the general public and members of the agricultural community in all areas regarding agriculture in the County.

The Highway Fund is used to account for activities that relate to the daily maintenance of roads, streets, drainage ditches, storm water management ponds and bridges.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities in the governmental funds. The Capital Projects Fund accounts for all capital improvements, which are financed by bond issues, government grants, and transfers from the General and Special Revenue Funds. Closed projects are transferred to the appropriate fund.

The government reports the following major proprietary funds:

The Water Quality Fund accounts for the activity of the County's sewage treatment plants, sewage pumping stations and collection systems, and the water treatment plants and distribution systems.

The Solid Waste Fund is used to account for activities related to the safe disposal of solid waste, to meet all state, federal, and county regulations and to provide for recycling.

The Public Transit Fund accounts for the activities of the public bus transportation system.

The Airport Fund is used to account for the activities at the Hagerstown Regional Airport that serves the air transportation and ancillary needs of the four state region.

The Black Rock Golf Course Fund accounts for activities at the Black Rock Golf Course including an 18 hole golf course, a full service pro shop, and a public restaurant.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Additionally, the government reports the following funds:

The County's Tax Sale Agency Fund is used to account for tax sales proceeds until distribution. Also included in the Agency Fund is contraband confiscated by law enforcement agencies.

The School Activity Fund of the Board of Education is an Agency Fund used in a custodial nature to account for the assets of the various school activities groups.

The Fringe Benefit Plan of the Board of Education is an Agency Fund used to account for the activity related to the Board's IRC Section 125 Cafeteria Plan. Employees of the Board may elect to have amounts withheld from their salaries for dependent care, health insurance premiums, and uncovered medical expenses.

The County's Pension Trust Fund is used to account for the activity related to the Employees' Retirement Plan of Washington County.

The County's Volunteer Length of Service Award Program Fund (LOSAP) is used to account for the activity related to the eligible volunteers' retirement, disability, and death benefits.

The Private-Purpose Trust Fund is used to account for the assets donated to the Board of Education to finance memorial scholarships, which are limited to revenues earned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from producing and delivering goods and providing services and use of properties in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. The Water Quality Fund also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 for all funds except for the Black Rock Golf Course and Public Transit funds, which are \$5,000. All assets are recorded at historical cost or estimated historical cost, except for donated capital assets which are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2006.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Land Improvements	15-50
Buildings and Improvements	10-40
Facilities	20-100
Vehicles	5-10
Infrastructure	10-100
Machinery and Equipment	5-20
Office Furniture and Equipment	5-10
Treatment Plants	25-100
Computer Equipment	5-10

Long-Term Obligations:

In the government-wide financial statements and proprietary funds financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, and proprietary fund statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs incurred by the governmental funds are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums and discounts on debt issuances are reported as other financing sources (uses). Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Use of Estimates in the Preparation of Financial Statements:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the County to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments:

Investments are stated at fair value based on quoted market values. Under the terms of repurchase agreements the excess cash from checking accounts is invested in short-term investments. All deposits are insured by FDIC or a surety bond. Short-term investments in U.S. Treasury and agency obligations that have remaining maturities of 90 days or less, provided that the fair value of those investments is not significantly affected by impairment, are reported at amortized cost, which approximates market value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Retirement plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Inventories:

Inventories of the General Fund, Special Revenue Funds and Enterprise Funds consist of expendable supplies held for consumption and items held for sale. These items are priced at cost using the first-in, first-out method.

Employee Benefit Programs:

The County's benefit program provides substantially all employees with group hospitalization, life insurance, disability income protection and retirement plans. The cost of the retirement plans is accounted for in the General and Special Revenue Funds and in the Enterprise Funds of the County.

There are two employee retirement plans for County employees. The County plans cover all full-time employees other than those employed prior to July 1, 1972 who elected to retain membership in the Maryland State Retirement System. The Board of Education Retirement Plan is the Maryland State Retirement System. The assets of the County plan are held by a trustee.

Retirement plan costs for members of the County Retirement Plan are determined annually on an actuarial basis. Pension costs charged to expense equal the annual required contributions, calculated in accordance with GASB Statement No. 27. The County follows the practice of funding pension costs accrued.

Taxes and County Services:

The County and its separate funds do not pay federal, state or local taxes except social security taxes. Except for certain limited reimbursements of administrative expenses and employee benefits made from other funds, the General Fund is not reimbursed by the other funds for general staff services.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Real Estate and Personal Property Taxes:

Taxes are levied as of July 1 and are delinquent on October 1, unless the taxpayer elects to pay in semi-annual installments. Interest accrues on all overdue taxes but is not recorded until collected. If tax bills are not paid within nine months, legal process is started to place a lien on the delinquent taxpayer's property and to sell it at public auction.

Rate of County Taxes:

Income tax	2.8% of Maryland taxable income (2005 and 2006 calendar years)
Recordation tax	\$7.60 per \$1,000
Trailer park	15% of gross rentals
Property taxes	\$.948 per \$100 of assessable base

Cash Flows:

For the purposes of the Statement of Cash Flows, the proprietary funds have defined cash equivalents as all highly liquid deposits and other investment instruments that have a maturity of three months or less.

Concentrations of Credit Risk:

The County's receivables consist of amounts due from County residents for property and other taxes, utilities and miscellaneous services and amounts due from the federal government and State of Maryland for grants and shared taxes. The Water Quality Department provides sewage and water treatment for residences and commercial and other entities in the Washington County, Maryland region. The Department extends credit to its customers for sewer and water service charges.

Reserved and Designated Fund Balances:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Unrestricted Net Assets:

Governmental activities unrestricted net assets has been reduced by \$45,896,315 in long term debt, resulting in unrestricted net assets of \$24,976,903. This long term debt was incurred by the County's general fund for the purpose of capital asset acquisition for the Board of Education \$(41,242,935) and Hagerstown Community College \$(4,653,380). The capital assets acquired with these bonds are not reflected in the primary government financial statements.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information:

The County's budget process is key to its long-range strategic plan. With the adoption phase ending in May, the entire budget process encompasses nine months in preparation time. Financial forecasts, economic trends, policy reviews, and citizen input are all part of this process and result in the development of the operating and capital budgets for the year. The following describes the budget process and procedures established by the County.

Financial Capacity and Analysis Phase:

The County develops statistical analysis of major revenue sources through various resources available. The County prepares and annually updates a long-range (5 years) financial forecasting system which includes projections of revenues, expenditures, future costs, financing of capital improvements that are included in the Capital Improvement Budgets, Cost of Service Plans and the Operating Budget.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

Revenue estimates are monitored to identify any potential trends, which would significantly impact the various revenue sources. The County reviews current construction trends, the number of building permits, mortgages rates, and other economic data that can impact revenue collections.

The County uses other financial modeling techniques that impact the long-term operations and rates for the Water Quality and Landfill Funds.

The County annually updates its financial ratio trends. Most of the financial trends includes peer group median and historical data. Trend indicators are tracked for specific elements of the County's fiscal policies for evaluation.

Debt capacity is evaluated on an annual basis prior to the adoption of the Capital Improvement Plan. The County examines statistical measures and compares them to other counties, rating agency standards, and Washington County's historical measures to determine debt affordability.

The economic and financial trend analysis is an integral part of the County's decision-making process that includes short and long-term forecasts. The County's current financial condition as well as future financial capacity, long-range plans, and future goals and visions are evaluated. During this phase forecasting assumptions, policy and reserve reviews, compensation adjustments, and inflation assumptions are made.

Budget Development Start:

The development of the budget starts with the on-line release of operational budgets and six year capital improvement budgets. The information distributed includes instructions on completing the budgets, due dates, and updated information on budgetary numbers, personnel positions, goals, and other pertinent information.

Budget Development Phase:

Capital Improvement Budget development begins in the winter after the development of the debt capacity and financial trend and economic trend analysis. The Capital Improvement Program (CIP) provides a comprehensive approach to planning and impacts all facets of County operations. The County Administrator, the Finance Director, the Planning Director, and the Director of Public Works comprise the Capital Improvements Program Committee ("CIP Committee"). From the time the CIP's initial annual review begins in October through its adoption in May of each fiscal year, there is constant interaction between departments, the CIP committee, and the elected officials. This effort is characterized by cooperation and reflects a common goal of ensuring that the CIP meets the objectives of the County and remains affordable and achievable.

The CIP is reviewed in conjunction with the annual debt affordability analysis with revenue projections inclusive of rate analysis, in order to determine funding availability. A financial analysis of funding sources and project costs is conducted for all proposed capital improvement projects.

It is the CIP Committee's responsibility to review all requests that County departments and agencies submit. Based on current and future needs as developed in the six-year capital plan, and available funding sources, the CIP Committee determines which capital projects best meet established criteria for the current fiscal year Capital Improvement Budget and the five-year forecast. Operating impacts of current and proposed capital projects are also taken into consideration by staff when developing their Capital Improvement Budget.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

Operating Budgets represent existing service levels and two years of prior historical information. Departments and Agencies request funding for the upcoming fiscal year. Any increases in program and services require justification, as do, all capital outlay requests. These requests are summarized with projected funding shortfalls or overruns calculated.

Review/Modification Phase:

The County Administrator presents the Operating and Capital Improvement Budgets to the County Commissioners. Preliminary recommendations are reviewed to ensure that preliminary budgets address the County's goals and fiscal management policies. The County Administrator and the Director of Finance work with the Commissioners on the proposed budget documents for adoption.

Adoption Phase:

Proposed Budgets are voted on by the County Commissioners to take to a public hearing to communicate to the general public for all operating and capital funds. Advertisement is placed in the local newspaper, handouts, and on the County web site. A presentation and handouts are prepared for the public.

Public hearings are held on the Proposed budgets and the current tax levy. A 10-day waiting period is held for public comment. Local Law requires a balance budget to be adopted by July 1st.

Start Up:

Department Managers are responsible for their budgets throughout the fiscal year. Expenditure percentages are calculated and compared to budget. Corrective action, if necessary, is taken if serious negative trends exist. Management and the County Commissioners have real-time budgeting reports available on-line, as well as, up-dates on major events and/or issues.

Balanced Budget:

Under County code the County Commissioners annual budget shall have a figure for the total of all appropriations and a figure for the total of all revenues available to pay the appropriations. The figure for total appropriations may not exceed the figure for total estimated revenues.

Costing of Services:

In addition to accrual basis budgeting, several enterprise funds utilize a cost of service approach. Cost of service is a method of accounting, which identifies both the cost of the program and the portion of the cost that will be recovered through fees and charges. By using this financial technique, the County is able to assess the true cost of providing a service. Currently water, sewer, and solid waste services use this approach to determine cost and rates.

Amendment to the Budget:

The County's Operating Budgets are adopted at the program/service level and the Capital Improvement Budgets are adopted at the project level. Transfers between programs or projects in excess of \$25,000 require County Commissioner approval. Any transfer out of contingency requires the approval of the County Commissioners.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 2. Stewardship, Compliance, and Accountability (Continued)

The Director of Budget and Finance reviews the project status and revenues before any issuance of debt. Any modifications to a project and or the total debt to be issued based upon this review is required to be approved by the County Commissioners either for an increase or decrease in total borrowing amount or for a change in the total borrowing source.

Note 3. Cash and Short-Term Investments

County:

The County maintains a cash and investment pool that is available for use by all funds, and is displayed on the Statement of Net Assets as "cash and short-term investments."

Statutes authorize the County to invest in United States government bonds, obligations of the federal government or agencies, savings accounts in Maryland banks, repurchase agreements and the Maryland Local Government Investment Pool.

Deposits:

At June 30, 2006, the carrying amount of the County's deposits was \$20,200,757 and the bank balances were \$28,612,414. All deposits are carried at cost plus accrued interest. There were no significant violations of the collateralization requirements during the year ended June 30, 2006. The County's deposit policy specifies that all deposits must be entirely covered by federal depository insurance, deposit surety bond, or by collateral in the form of pledged securities, according to state statute. In order to anticipate market changes and provide a level of security for all funds, the collateralization level is required to be at least 102% of market value of principal and accrued interest.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk. As of June 30, 2006 the County's bank balance of \$28,612,414 was not exposed to custodial credit risk as \$100,000 of interest bearing accounts and \$100,000 of non-interest bearing accounts are insured by FDIC and \$75,000,000 is insured by a deposit surety bond issued by XL Capital Assurance, Inc.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (Continued)

Investments:

As of June 30, 2006, the County had the following investments and maturities.

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
U.S. Treasury Bills	\$ 4,723,184	\$ 4,723,184	\$ -	\$ -	\$ -
Federal Home Loan Mortgage Corporation discount notes	41,274,187	41,274,187	-	-	-
Federal National Mortgage Association discount notes	76,062,545	76,062,545	-	-	-
Total Investments held in County's name	\$ 122,059,916	\$ 122,059,916	\$ -	\$ -	\$ -
Investments held by trustee of Pension plan:					
U.S Government obligations and Coporate bonds	\$ 11,129,325	\$ 521,856	\$ 2,366,801	\$ 3,143,018	\$ 5,097,650
Corporate stocks	16,538,253	16,538,253	-	-	-
Municipal obligations	155,162	155,162	-	-	-
Fixed Income Funds	977,415	977,415	-	-	-
Equity Funds	11,504,342	11,504,342	-	-	-
Money Market Funds	1,175,425	1,175,425	-	-	-
Total Investments held by trustee of Pension plan	\$ 41,479,922	\$ 30,872,453	\$ 2,366,801	\$ 3,143,018	\$ 5,097,650
Investments held by trustee of LOSAP plan:					
U.S Government obligations and Coporate bonds	\$ 831,667	\$ 44,655	\$ 152,822	\$ 239,632	\$ 394,558
Fixed Income Funds	48,871	48,871	-	-	-
Equity Funds	2,022,925	2,022,925	-	-	-
Money Market Funds	141,415	141,415	-	-	-
Total Investments held by trustee of LOSAP plan	\$ 3,044,878	\$ 2,257,866	\$ 152,822	\$ 239,632	\$ 394,558
Total Investments	\$ 166,584,716	\$ 155,190,235	\$ 2,519,623	\$ 3,382,650	\$ 5,492,208

Interest rate risk: As a means of limiting its exposure to fair value losses arising from interest rates, the County's investment policy specifies that funds shall be invested at all times in keeping with the daily and seasonal pattern of the County's cash balances, as well as any other special factors or needs, in order to assure the availability of funds on a timely and liquid basis. Cash flow projections will be monitored and updated on an ongoing basis by the Budget and Finance Department and communicated regularly to the County Administrator. On a periodic basis, the County will determine, based on cash flow projections, what the appropriate average weighted maturity of the portfolio should be.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (Continued)

Unless matched to a specific cash flow, the County will not invest in securities maturing more than three years from the date of purchase. Reserve funds may be invested in securities exceeding three years if the maturities of such instruments precede or coincide with the expected needs for funds and only with the prior approval of the Budget and Finance Department.

The County's Pension Plan Investment Policy states that the assets are to be managed for total return, defined as dividend and interest income plus or minus capital gains and losses. Investments shall be diversified so as to minimize the risk of unacceptable losses. The portfolio is looked at as a whole rather than as individual securities. Investing for long term (preferably longer than 10 years) becomes critical to investment success because it allows the long-term characteristics of the asset classes to surface.

The table below summarizes the target asset class weighting, along with the allowable ranges for each class.

Equities:		
Large-Cap U.S. Stocks	25-45%	35%
Small-Cap U.S. Stocks	0-15%	10%
International Stocks	5-20%	15%
REITS	0-10%	5%
Fixed Income:		
High Yield Bonds	0-15%	10%
Investment Grade Bonds	5-30%	23%
Money Market	0-10%	2%

Credit risk: It is the County's investment policy to only invest in U.S. government Treasury obligations, agencies and sponsored instrumentalities. Also the County's Investment policy allows for investments in banks located in the State of Maryland (Certificates of Deposit) with the exception of Bankers Acceptances. Commercial banks must have a short-term rating of at least investment grade from the appropriate bank rating agencies. Bankers' Acceptances from domestic banks, which also include United States affiliates of large international banks, must have a rating of A1 from Standards and Poor's Corporation and P1 from Moody's Investor Services. As of June 30, 2006, the County's investments were 100% in U.S. Treasury and Agency obligations.

The County's Pension Plan Investment Policy allows for investing in the following investment types. Also below is the benchmark used for rating each of the assts.

<u>Investment Type</u>	<u>Benchmark</u>
Equities:	
Large-Cap U.S. Stocks	S&P 500
Small-Cap U.S. Stocks	Russel 2000
International Stocks	MSCI ACWI
REITS	NAREIT Equity
Fixed Income:	
High Yield Bonds	Lehman High Yield Credit Bond Index
Investment Grade Bonds	Lehman Bros. Aggregate Bond Index
Money Market	SSB 3-month Treasury Bill

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2006, none of the County's investments are exposed to custodial credit risk.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (Continued)

Board of Education:

Maryland State Law prescribes that local government units such as the School System must deposit its cash in banks transacting business in the State of Maryland and that such banks must secure any deposits in excess of Federal Deposit Insurance Corporation insurance levels with collateral whose market value is at least equal to the deposits. At June 30, 2006, the carrying amount of the School System's cash deposits, including fiduciary funds, was \$16,732,770 and the bank balance was \$18,399,015. Of the bank balance, \$500,444 was covered by federal depository insurance and \$17,898,571 was collateralized with securities held by an agent of the pledging financial institution. Additionally, a compensating balance agreement exists with the Board's primary financial institution. This non-interest bearing deposit is maintained in lieu of cash payments for standard bank services. The required average balance totaled \$250,000 at June 30, 2006.

Investments:

Statutes authorize the Board to invest in obligations of the United States government, federal government obligations and repurchase agreements secured by direct government or agency obligations.

Investments are made in fully secured time deposits and in federal government securities primarily through repurchase agreements without risk of loss due to market conditions. The Board's policy is generally to require delivery of the underlying collateral to a third party custodian.

The Board's investments are categorized to give an indication of the level of risk assumed by the entity at year end. All of the School System's investments are uninsured and unregistered investments for which the securities are held by the bank's trust department or agent in the School System's name. The carrying amounts, which approximate market values, of the Board's investments, including fiduciary funds, at June 30, 2006 are summarized as follows:

	<u>Carrying value</u>
Federal Home Loan Mortgage Corporation note, 3.019%, matures April 19, 2007	\$ 1,500,000
Federal National Mortgage Assoc., 3.123%, matures July 15, 2006	1,500,000
U.S. Treasury notes, Series M-2007, 3.124%, matures January 31, 2007	500,000
Federal Home Loan Bank, 3.366%, matures September 14, 2007	500,000
U.S. Treasury notes, Series F-2008, 2.245%, matures May 15, 2008	1,000,000
Federal National Mortgage Assoc., 3.997%, matures May 23, 2007	1,083,000
Federal Home Loan Bank, 3.374%, matures December 15, 2006	1,500,000
Federal Home Loan Mortgage Corp. - Discount Notes, 4.732%, matures February 16, 2007	1,062,000
Income Fund of America	37,706
Total Investments	<u>\$ 8,682,706</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 3. Cash and Short-Term Investments (Continued)

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. Treasuries	\$ 1,500,000	\$ 500,000	\$ 100,000	\$ -	\$ -
U.S Agencies	7,145,000	6,645,000	500,000	-	-
Income Fund	<u>37,706</u>	<u>37,706</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investments Held	<u>\$ 8,682,706</u>	<u>\$ 7,182,706</u>	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ -</u>

Note 4. Receivables

Receivables as of year end for the government's individual major funds, including the applicable allowances for uncollectible accounts are as follows:

	<u>Governmental Activities</u>			
	<u>General</u>	<u>Highway</u>	<u>Capital Projects</u>	<u>Total</u>
Receivables:				
Taxes receivable	\$ 769,518	\$ -	\$ -	\$ 769,518
Accounts receivable	<u>477,058</u>	<u>18,738</u>	<u>544,155</u>	<u>1,039,951</u>
Gross receivables	\$ 1,246,576	\$ 18,738	\$ 544,155	\$ 1,809,469
Less: allowance for uncollectibles	<u>607,089</u>	<u>4,718</u>	<u>-</u>	<u>611,807</u>
Net Total Receivables	<u>\$ 639,487</u>	<u>\$ 14,020</u>	<u>\$ 544,155</u>	<u>\$ 1,197,662</u>

	<u>Business-type Activities</u>					
	<u>Water Quality</u>	<u>Solid Waste</u>	<u>Public Transit</u>	<u>Airport</u>	<u>Black Rock Golf Course</u>	<u>Total</u>
Accounts receivable	\$ 1,462,562	\$ 1,685,413	\$ 12,510	\$ 163,412	\$ 810	\$ 3,324,707
Less: allowance for uncollectibles	<u>91,745</u>	<u>15,261</u>	<u>500</u>	<u>2,870</u>	<u>-</u>	<u>110,376</u>
Net Total Receivables	<u>\$ 1,370,817</u>	<u>\$ 1,670,152</u>	<u>\$ 12,010</u>	<u>\$ 160,542</u>	<u>\$ 810</u>	<u>\$ 3,214,331</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year deferred revenue for delinquent property taxes receivable reported in the general fund was \$114,967. Receivables do not include various taxes collected by the State of Maryland on behalf of the County, including income taxes. These amounts are included in Due From Other Governmental Agencies.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government:

	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Governmental Activities:				
Capital assets, not being depreciated				
Land	\$ 2,771,433	\$ -	\$ -	\$ 2,771,433
Capital assets, being depreciated:				
Land Improvements	\$ 6,559,376	\$ 447,308	\$ -	\$ 7,006,684
Buildings and Improvements	36,413,580	74,001	(41,101)	36,446,480
Vehicles	8,623,122	881,938	(240,255)	9,264,805
Infrastructure	1,009,625,341	1,743,720	-	1,011,369,061
Machinery and Equipment	7,878,441	391,876	-	8,270,317
Office Furniture and Equipment	3,359,463	-	-	3,359,463
Computer Equipment	6,012,650	376,082	-	6,388,732
Total capital assets being depreciated	<u>\$ 1,078,471,973</u>	<u>\$ 3,914,925</u>	<u>\$ (281,356)</u>	<u>\$ 1,082,105,542</u>
Total capital assets	<u>\$ 1,081,243,406</u>	<u>\$ 3,914,925</u>	<u>\$ (281,356)</u>	<u>\$ 1,084,876,975</u>
Accumulated depreciation for:				
Land Improvements	\$ (3,434,180)	\$ (235,402)	\$ -	\$ (3,669,582)
Buildings and Improvements	(12,318,317)	(1,268,282)	25,544	(13,561,055)
Vehicles	(5,625,844)	(852,138)	221,015	(6,256,967)
Infrastructure	(699,318,421)	(25,346,068)	-	(724,664,489)
Machinery and Equipment	(4,813,950)	(432,835)	-	(5,246,785)
Office Furniture and Equipment	(2,291,813)	(269,707)	-	(2,561,520)
Computer Equipment	<u>(3,253,079)</u>	<u>(612,790)</u>	<u>-</u>	<u>(3,865,869)</u>
Total Accumulated Depreciation	<u>\$ (731,055,604)</u>	<u>\$ (29,017,222)</u>	<u>\$ 246,559</u>	<u>\$ (759,826,267)</u>
Governmental activities capital assets, net	<u>\$ 350,187,802</u>	<u>\$ (25,102,297)</u>	<u>\$ (34,797)</u>	<u>\$ 325,050,708</u>
Projects under construction	<u>\$ 8,851,798</u>	<u>\$ 12,756,406</u>	<u>\$ (6,020,707)</u>	<u>\$ 15,587,497</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Business-type Activities:	<u>Balance June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>
Capital assets, not being depreciated				
Land	\$ 9,925,822	\$ -	\$ -	\$ 9,925,822
Capital assets, being depreciated:				
Land Improvements	\$ 52,470,862	\$ 7,542,315	\$ -	\$ 60,013,177
Buildings and Improvements	21,486,874	9,703,894	-	31,190,768
Facilities	71,503,976	301,999	-	71,805,975
Vehicles	5,274,120	26,184	(314,226)	4,986,078
Machinery and Equipment	8,142,274	92,951	-	8,235,225
Office Furniture and Equipment	323,205	-	-	323,205
Computer Equipment	775,356	381,610	-	1,156,966
Treatment Plants	49,276,135	10,617	-	49,286,752
Total capital assets being depreciated	<u>\$ 209,252,802</u>	<u>\$ 18,059,570</u>	<u>\$ (314,226)</u>	<u>\$ 226,998,146</u>
Total capital assets	<u>\$ 219,178,624</u>	<u>\$ 18,059,570</u>	<u>\$ (314,226)</u>	<u>\$ 236,923,968</u>
Accumulated depreciation for:				
Land Improvements	\$ (19,745,586)	\$ (2,764,335)	\$ -	\$ (22,509,921)
Buildings and Improvements	(6,347,050)	(570,451)	-	(6,917,501)
Facilities	(13,106,039)	(869,897)	-	(13,975,936)
Vehicles	(3,890,742)	(310,106)	305,477	(3,895,371)
Machinery and Equipment	(4,516,247)	(649,125)	-	(5,165,372)
Office Furniture and Equipment	(253,679)	(52,116)	-	(305,795)
Computer Equipment	(564,841)	(120,334)	-	(685,175)
Treatment Plants	(12,976,436)	(967,412)	-	(13,943,848)
Total Accumulated Depreciation	<u>\$ (61,400,620)</u>	<u>\$ (6,303,776)</u>	<u>\$ 305,477</u>	<u>\$ (67,398,919)</u>
Business-type activities capital assets, net	<u>\$ 157,778,004</u>	<u>\$ 11,755,794</u>	<u>\$ (8,749)</u>	<u>\$ 169,525,049</u>
Projects under construction	<u>\$ 27,409,233</u>	<u>\$ 24,372,174</u>	<u>\$ (11,942,000)</u>	<u>\$ 39,839,407</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government	\$ 27,209,138
Public Safety	873,937
Recreation	283,620
Conservation of Natural Resources	7,004
Highway	627,444
Total depreciation expense - governmental activities	<u>\$ 29,001,143</u>

Business-type activities:

Public Transit Fund	\$ 144,571
Airport Fund	1,238,233
Black Rock Golf Course	158,442
Water Quality	2,306,903
Solid Waste	2,455,627
Total depreciation expense - business-type activities	<u>\$ 6,303,776</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Board of Education (Discretely presented component unit):

	<u>Balance</u>			<u>Balance</u>
	<u>June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,514,501	\$ -	\$ -	\$ 2,514,501
Capital assets being depreciated:				
Buildings and improvements	\$ 172,117,032	\$ 2,299,322	\$ -	\$ 174,416,354
Furniture and equipment	23,529,271	4,070,499	(2,117,908)	25,481,862
Equipment under capital leases	684,384	112,840	-	797,224
	<u>\$ 196,330,687</u>	<u>\$ 6,482,661</u>	<u>\$ (2,117,908)</u>	<u>\$ 200,695,440</u>
Accumulated depreciation for:				
Buildings and improvements	\$ (77,296,717)	\$ (3,877,912)	\$ -	\$ (81,174,629)
Furniture and equipment, including equipment under capital leases	<u>(15,397,334)</u>	<u>(2,000,754)</u>	<u>2,071,903</u>	<u>(15,326,185)</u>
	<u>\$ (92,694,051)</u>	<u>\$ (5,878,666)</u>	<u>\$ 2,071,903</u>	<u>\$ (96,500,814)</u>
Governmental activities capital assets, net	<u>\$ 106,151,137</u>	<u>\$ 603,995</u>	<u>\$ (46,005)</u>	<u>\$ 106,709,127</u>
Business-type activities:				
Capital assets being depreciated:				
Furniture and equipment	\$ 3,205,119	\$ 98,472	\$ (90,109)	\$ 3,213,482
Accumulated depreciation for:				
Furniture and equipment	<u>(2,536,547)</u>	<u>(134,588)</u>	<u>83,667</u>	<u>(2,587,468)</u>
Business-type activities capital assets, net	<u>\$ 668,572</u>	<u>\$ (36,116)</u>	<u>\$ (6,442)</u>	<u>\$ 626,014</u>
Total	<u>\$ 106,819,709</u>	<u>\$ 567,879</u>	<u>\$ (52,447)</u>	<u>\$ 107,335,141</u>
Facilities under construction	<u>\$ 12,171,295</u>	<u>\$ 8,664,362</u>	<u>\$ (2,109,788)</u>	<u>\$ 18,725,869</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 5. Capital Assets (Continued)

Depreciation expense was charged to the functions/programs of the Board as follows:

Governmental activities:

Other instructional costs	\$ 996,497
Student transportation services	723,836
Operation of plant	63,454
Depreciation - unallocated	<u>4,094,881</u>
Total depreciation expense - governmental activities	<u><u>\$ 5,878,668</u></u>

Business-type activities:

Food services	\$ 134,588
Total depreciation expense - business-type activities	<u><u>\$ 134,588</u></u>

Note 6. Interfund Receivables and Payables

Outstanding balances between funds are reported as "due to/from other funds" and are the result of the County's central cash management and disbursement system. Other activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are also referred to in the fund statements as "due to/from other funds".

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Airport	\$ 596,030
	Golf Course	164,864
Water Quality	General Fund	10,408,883
	Golf Course	31,960
	Public Transit	112,908
Solid Waste	General Fund	8,587,329
	Golf Course	26,368
	Public Transit	93,149
Airport	General Fund	7,025,996
	Golf Course	21,574
	Public Transit	76,212
Capital Projects	General fund	<u>62,866,931</u>
Total		<u><u>\$ 90,012,204</u></u>

Due to/from primary government and component unit:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Component unit - Board of Education	Primary government - capital projects	<u><u>\$ 2,196,693</u></u>

The general fund receivable from the Airport has a June 30, 2006 balance of \$596,030 of which \$516,030 bears interest at a rate of 4.5% and is being paid over a remaining 6 year period and \$80,000 is an interest free loan and is being paid over a remaining 7 year period. All other interfund payables are without interest.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 7. Interfund Transactions

During the course of normal operations, the County has numerous transactions between funds. Interfund transactions are generally classified as follows:

- ◆ Operating transfers are reported as "Other Financing Sources (Uses)" in the governmental funds and as "Operating Transfers" or "Capital Transfers" by the recipient fund.

A summary of transfers follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>	<u>Capital Transfers In</u>	<u>Capital Transfers Out</u>
General Fund:				
Capital Projects Fund	\$ -	\$ 16,264,180	\$ -	\$ -
Public Transit Fund	-	431,635	-	89,500
Water Quality Fund	-	3,120,000	-	63,000
Airport Fund	-	279,222	-	159,674
Solid Waste Fund	-	950,000	-	-
Community Partnership	-	123,680	-	-
Agricultural Education Center	-	134,620	-	-
Community Partnership:				
General Fund	123,680	-	-	-
Capital Projects:				
General Fund	16,264,180	-	-	-
Highway Fund	1,539,830	-	-	-
Airport Fund	-	-	-	-
Water Quality Fund	-	-	-	-
Public Transit Fund	-	-	-	-
Highway Fund:				
Capital Projects Fund	-	1,539,830	-	-
Agricultural Education Center:				
General Fund	134,620	-	-	-
Water Quality Fund:				
General Fund	3,120,000	-	63,000	-
Capital Projects Fund	-	-	-	-
Solid Waste Fund:				
General Fund	950,000	-	-	-
Public Transit Fund:				
General Fund	431,635	-	89,500	-
Airport Fund:				
General Fund	279,222	-	159,674	-
	<u>\$ 22,843,167</u>	<u>\$ 22,843,167</u>	<u>\$ 312,174</u>	<u>\$ 312,174</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. During the year, general obligation bonds totaling \$10,500,000 were issued for new projects and \$15,000,000 were issued for interim financing for the airport runway project.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds generally are issued as 20-year serial bonds with different amounts of principal maturing each year. General obligation bonds and capital lease obligations currently outstanding are as follows:

	Interest Rate	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds payable						
General obligation bonds	2.0-6.1%	\$ 88,014,484	\$ 10,500,000	\$ 7,053,831	\$ 91,460,653	\$ 6,001,305
Deferred amount on refunding		(1,532,050)	-	(485,298)	(1,046,752)	-
Unamortized bond premium		502,674	-	41,081	461,593	-
Unamortized bond discount		(53,181)	-	(2,955)	(50,226)	-
Total bonds payable		<u>\$ 86,931,927</u>	<u>\$ 10,500,000</u>	<u>\$ 6,606,659</u>	<u>\$ 90,825,268</u>	<u>\$ 6,001,305</u>
Other loans payable						
County transportation bond	2.8-6.2%	\$ 208,434	\$ -	\$ 208,434	\$ -	\$ -
Maryland Water Quality loans	1.00%	1,934,391	-	29,354	1,905,037	29,354
State loan	6.23%	147,209	-	59,692	87,517	63,272
Other loans payable		<u>\$ 2,290,034</u>	<u>\$ -</u>	<u>\$ 297,480</u>	<u>\$ 1,992,554</u>	<u>\$ 92,626</u>
Total bonds and loans payable		\$ 89,221,961	\$ 10,500,000	\$ 6,904,139	\$ 92,817,822	\$ 6,093,931
Capital lease obligations	4.68-5.41%	<u>194,350</u>	-	194,350	-	-
Governmental Activity						
Long-term Liabilities		<u>\$ 89,416,311</u>	<u>\$ 10,500,000</u>	<u>\$ 7,098,489</u>	<u>\$ 92,817,822</u>	<u>\$ 6,093,931</u>
Business-type Activities						
Bonds payable						
General obligation bonds	2.0-7.4%	\$ 23,529,627	\$ 15,000,000	\$ 2,629,934	\$ 35,899,693	\$ 3,280,383
Deferred amount on refunding		(1,834,921)	-	(215,838)	(1,619,083)	-
Unamortized bond premium		94,864	-	57,953	36,911	-
Unamortized bond discount		(80,290)	-	(10,517)	(69,773)	-
Total bonds payable		<u>\$ 21,709,280</u>	<u>\$ 15,000,000</u>	<u>\$ 2,461,532</u>	<u>\$ 34,247,748</u>	<u>\$ 3,280,383</u>
Other loans payable						
Maryland Water Quality loans	.04-4.89%	\$ 32,934,255	\$ -	\$ 1,884,640	\$ 31,049,615	\$ 1,469,183
State loans	5.5-6.44%	2,229,954	-	90,322	2,139,632	129,114
Amount to be drawn		(2,287,345)	-	(2,287,345)	-	-
Other loans payable - net		<u>\$ 32,876,864</u>	<u>\$ -</u>	<u>\$ (312,383)</u>	<u>\$ 33,189,247</u>	<u>\$ 1,598,297</u>
Total bonds and loans payable		\$ 54,586,144	\$ 15,000,000	\$ 2,149,149	\$ 67,436,995	\$ 4,878,680
Capital leases	4.25-5.5%	<u>575,238</u>	-	218,246	356,992	227,915
Business-type Activity						
Long-term Liabilities		<u>\$ 55,161,382</u>	<u>\$ 15,000,000</u>	<u>\$ 2,367,395</u>	<u>\$ 67,793,987</u>	<u>\$ 5,106,595</u>
Total Combined Activities						
Long-term Liabilities		<u>\$ 144,577,693</u>	<u>\$ 25,500,000</u>	<u>\$ 9,465,884</u>	<u>\$ 160,611,809</u>	<u>\$ 11,200,526</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

Summary of remaining debt service requirements for the years ended June 30 are as follows:

<u>Year</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 6,093,931	\$ 3,724,630	\$ 4,878,680	\$ 1,925,309
2008	6,202,371	3,543,705	4,979,051	1,918,115
2009	6,450,177	3,310,596	5,089,927	1,851,149
2010	6,695,111	3,058,589	5,104,670	1,830,937
2011	7,050,144	2,800,237	4,637,296	1,743,700
2012-2016	32,614,322	9,845,706	19,886,312	9,392,327
2017-2021	20,040,352	4,051,929	16,287,598	8,910,928
2022-2026	8,306,799	879,490	8,225,406	732,309
	<u>\$ 93,453,207</u>	<u>\$ 31,214,882</u>	<u>\$ 69,088,940</u>	<u>\$ 28,304,774</u>
Less:				
Deferred amount on refunding	(1,046,752)		(1,619,083)	
Unamortized discount	(50,226)		(69,773)	
Unamortized premium	461,593		36,911	
Amount to be drawn	-		-	
	<u>\$ 92,817,822</u>		<u>\$ 67,436,995</u>	

On occasion, the State of Maryland Department of Transportation issues bonds and distributes the proceeds to the County for highway construction. Such distributions are being repaid plus interest by annual deductions made by the State from the County's distributable share of State motor vehicle and gasoline taxes. The outstanding balance was paid off by June 30, 2006.

From time to time, the County has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received in the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the County, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. In accordance with governmental accounting standards the bonds are not reported as liabilities in the accompanying financial statements. As of June 30, 2006 there were Industrial Revenue Bonds outstanding with an aggregate principal amount payable of \$43,685,782.

The County Commissioners have received bonding authority from the State Legislature to issue public facilities bonds in the amount of approximately \$43,139,110 for the purpose of financing various capital projects. Of this amount, \$5,000,000 is restricted for the Airport and \$5,000,000 is restricted for agricultural preservation.

The County had various capital lease agreements for communications and heavy equipment accounted for in the governmental activities, which expired during fiscal year ending June 30, 2006.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

On August 15, 2002, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$83,349. The term of the lease is for five years, expiring August 15, 2006. On September 10, 2002, the Solid Waste Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$78,180. The term of the lease is for five years, expiring September 10, 2006. On May 28, 2004, the Solid Waste fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$68,681. The term of the lease is for five years, expiring July 15, 2008. The future minimum payments under these agreements are as follows:

2007	\$	230,210
2008		68,682
2009		68,681
Total minimum lease payments	\$	<u>367,573</u>
Less amounts representing interest		<u>23,301</u>
Present value of net minimum lease payments	\$	<u><u>344,272</u></u>

On August 15, 2002, the Water Quality Fund entered into a capital lease agreement for equipment. The lease calls for annual lease payments of \$13,286. The term of the lease is for five years, expiring August 15, 2006. The future minimum payments under this agreement are as follows:

2007		<u>13,286</u>
Total minimum lease payments	\$	<u>13,286</u>
Less amounts representing interest		<u>566</u>
Present value of net minimum lease payments	\$	<u><u>12,720</u></u>

Board of Education:

The Board of Education has various capital lease agreements for certain data processing and communications equipment. The future minimum payments under these agreements are as follows:

2007	\$	206,506
2008		133,432
2009		30,300
2010		30,103
2011		24,392
Total minimum lease payments	\$	<u>424,733</u>
Less amounts representing interest		<u>31,606</u>
Present value of net minimum lease payments	\$	<u><u>393,127</u></u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 8. Long-Term and Capital Lease Obligations (Continued)

Advance Refundings:

In prior years, the County has partially defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for certain future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the partially defeased bonds are not included in the County's financial statements. As of June 30, 2006, \$27,465,000 of long-term obligations outstanding are considered defeased.

Note 9. Lease Agreements

County:

The Washington County Golf Corporation entered into a lease for golf carts in March 2003. The agreement called for lease payments of \$8,056 payable from April through November of each year. The lease term was for three years commencing on March 15, 2003. The lease expired April 14, 2006.

On January 1, 2006 the Golf Course Corporation entered into another lease for golf carts. The agreement called for lease payments of \$6,962 payable from April through November of each year. The lease term is for three years commencing on April 15, 2006.

Total lease payments for the years ended June 30, 2006 and 2005, respectively were \$59,828 and \$68,851.

The County has entered into a lease as the lessor with a local manufacturing company whereby the County has obtained low interest financing to construct the leased facility. This debt is reflected in the General Fund. The County will transfer title of the property to the Company at the end of the 25 year lease term, which expires in July 2007. Lease payments of \$138,824 per year for the term of the lease are designed to cover the debt service on the loan. The investment in capital lease at June 30, 2006 is \$125,629.

During fiscal year 2004, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned by the Airport. The total cost of the building and improvements was capitalized as an asset in the Airport fund with an estimated useful life of 40 years. At June 30, 2004, the building and improvements were estimated at \$2,500,000. During the year ending June 30, 2005, a revised cost was obtained reducing the value to \$2,000,000. The \$500,000 adjustment was recorded as a reduction to fixed assets and deferred revenue in the June 30, 2005 financial statements. The terms of the original agreement which began June 30, 2004, allowed the lessee to use the property for a period of 25 years, with no additional payments due. Effective May 1, 2006, this lease was amended with lease terms extended to 31 years. The agreement allows an option for the lessee to continue the lease past the 31 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred revenue in the amount of \$2,500,000 was recorded in the Airport fund at the inception of the lease but, was adjusted down to \$2,000,000 during year ending 2005, and was to be recognized as rental income over the original 25 year term of the lease. Since the amendment on May 1, 2006, the remaining \$1,840,000 of this lease will be amortized over 31 years.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 9. Lease Agreements (Continued)

During fiscal year 2006, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned by the Airport. The total cost of the building and improvements was \$1,800,000, which has been capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2006. The terms of the agreement which began June 30, 2006, allows the lessee to use the property for a period of 31 years. The terms of the lease agreement require that the lessee pay the County annual rent of \$5,250 beginning July 1, 2006, with an annual increase of 4% each July 1st thereafter. The lease also requires that the County credit the lessee \$127,500 for the lessee's incurred costs in excavating the site for the addition. The agreement allows an option for the lessee to continue the lease past the 31 year term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred revenue in the amount of \$1,800,000 was recorded in the Airport fund at the inception of the lease.

During fiscal year 2006, the County entered into a lease agreement whereby the lessee constructed a building and improvements on land owned by the Airport. The total cost of the building and improvements was \$3,100,000, which has been capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2006. The terms of the agreement which began June 30, 2006, allows the lessee to use the property for a period of 39 years (primary terms). The terms of the lease agreement require that the lessee pay the County annual rent of \$5,200 during the primary terms of the lease with an annual increase of 3% each year. The agreement allows an option for the lessee to continue the lease past the 39 years term at a rental payment equal to the fair market rental value of the leased property at that time. Deferred revenue in the amount of \$3,100,000 was recorded in the Airport fund at the inception of the lease.

During fiscal year 2004, the County entered into a lease agreement whereby the lessee began building improvements on land and buildings owned by the Airport. During fiscal year 2006, the improvements were completed for a total cost of \$1,165,000, which has been capitalized as an asset in the Airport fund with an estimated useful life of 40 years on June 30, 2006. The terms of the agreement which began June 30, 2006, allows the lessee to use the property for a period of 17 years, with no payments due during the initial five year term of the lease. In subsequent years, the lessee agrees to pay rent equal to the then-prevailing fair market rental value of the original 2000 square feet of the leased property. Deferred revenue in the amount of \$1,165,000 was recorded in the Airport fund at the inception of the lease.

During year ending June 30, 2006, rental income for the above leases of \$80,000 was recognized in the Airport Fund.

On January 1, 2006, the County entered into an agreement with Spirit Services, Inc. of Washington County to lease and operate the Conococheague Industrial Pretreatment Facility. Under the lease agreement, Spirit Services Inc. has exclusive control and management of the pretreatment facility and assumes all responsibility for utility and maintenance expenses. The term of the lease runs for a period of ninety-nine years with fixed monthly rent payments of \$28,800. During the year ending June 30, 2006 outsourcing revenue of \$144,000 was in the Water Quality Fund.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 10. Special Assessment Debt

A special taxing district known as the Barkdoll Tract Special Taxing District (Prime Retail) was created by the County. Special obligation bonds in the amount of \$3,100,000, \$1,517,000 and \$2,454,000 were issued in June 1998, November 1998 and April 2000, respectively. The County is in no way liable for repayment of the bonds and is only acting as an agent for the property owners in the special taxing district in collecting the special taxes and forwarding collection to bondholders.

Annual debt service requirements to maturity for special assessment bonds are as follows:

<u>Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	162,000	432,110
2008	174,000	420,770
2009	186,000	408,590
2010	199,000	395,570
2011	213,000	381,640
2012-2016	1,314,000	1,662,290
2017-2021	1,852,000	1,132,320
2022-2025	2,073,000	358,050
	<u>\$ 6,173,000</u>	<u>\$ 5,191,340</u>

Note 11. Unused Vacation and Sick Leave

County:

The County accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30 and is capped at 25 days. The accrual of sick leave is based on payment upon retirement at a rate of \$10 per day for each unused sick leave day up to a total of 130 days. Total unpaid vacation and sick leave accrued at June 30, 2006 and 2005 was \$1,625,308 and \$516,642 respectively. Unused vacation and sick leave will be liquidated by the respective government and enterprise funds where the current employee costs are accounted for.

Board of Education:

The School System accrues accumulated unpaid vacation and sick leave and associated employee-related costs when earned or estimated to be earned by the employee. The accrual of vacation leave is based upon individual salary rates in effect as of June 30. The accrual of sick leave is based on payment upon retirement at a rate of \$25 per day for each unused sick leave day up to a total of 200 days and \$35 per day for additional accumulated sick leave beyond 200 days. Sick leave is estimated to be earned once an employee has obtained 25 years of service or 55 years of age. Total unpaid vacation and sick leave accrued at June 30, 2006 was \$1,818,907 and \$2,514,002, respectively. Total employee related costs associated and accrued with these compensated absences amounted to \$331,468 at June 30, 2006. For governmental funds, \$278,573 at June 30, 2006 are considered payable with current sources and are included in accrued liabilities. The remaining amounts are estimated to be used in subsequent fiscal years and are maintained separately and represent a reconciling item between the fund and government-wide financial statement presentations.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 12. Retirement Plans

County Defined Benefit Pension Plan:

Plan Description. The County Commissioners of Washington County Employees Retirement Plan is a single-employer defined benefit pension plan. The Plan provides retirement benefits to plan members. Cost-of-living adjustments are provided at the discretion of the County Commissioners. Annual reporting for the Plan is presented only in the County's fiduciary funds financial statements.

Funding Policy. The contribution requirements of plan members and the County is established and may be amended by the County Commissioners. Plan members are required to contribute 5.5% of their annual covered salary, except for uniformed sworn officers of the Sheriff's Department, who contribute 6%.

All information that follows for the County plan is as July 1, 2005, which is the latest actuarial report available.

Membership of the Plan. The membership consisted of the following at July 1, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	126
Terminated plan members entitled to but not yet receiving benefits	43
Active plan members	<u>654</u>
	<u><u>823</u></u>

Annual Pension Cost and Net Pension Obligation. The County's annual pension cost and net pension obligation for the year ended June 30, 2005, were as follows:

Annual required contribution	\$ 2,697,081
Interest on Net Pension Obligation	(210,274)
Adjustment to annual required contribution	<u>297,898</u>
Annual pension cost	\$ 2,784,705
Contributions	<u>1,330,000</u>
Increase (decrease) in net pension obligation	\$ 1,454,705
Net pension obligation (excess) beginning of year	<u>(2,473,815)</u>
Net pension obligation (excess) end of year	<u><u>\$ (1,019,110)</u></u>

The annual required contribution for the current year was determined as part of the July 1, 2005 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 5.5% per year. The assumptions did not include postretirement benefit increases. The actuarial value of assets was determined by the market value of investments. The unfunded actuarial accrued liability is being amortized at a level dollar over 25 years. The effect of an unfunded actuarial accrued liability (funding excess) is amortized immediately.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 12. Retirement Plans (Continued)

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation (Excess)</u>
6/30/05	\$ 2,784,705	97.2%	\$ (1,019,110)
6/30/04	\$ 2,693,385	100.1%	\$ (2,473,815)
6/30/03	\$ 2,185,586	95.1%	\$ (3,742,200)

Board of Education:

The employees of the School System are covered by one of the following pension plans affiliated with the State Retirement and Pension System of Maryland, and agent multiple-employer public employee retirement systems administered by the Maryland State Retirement Agency:

- ◆ The Teachers' Retirement System of the State of Maryland
- ◆ The Employees' Retirement System of the State of Maryland
- ◆ The Pension System for Teachers of the State of Maryland, or
- ◆ The Pension System for Employees of the State of Maryland

During the 1979 legislative session, the Maryland General Assembly created, effective January 1, 1980, the "Pension System for Teachers of the State of Maryland" and the "Pension System for Employees of the State of Maryland." Prior to this date, all teachers and related positions were required to be members of the "Teachers' Retirement System of the State of Maryland" and classified positions were members of the "Employees' Retirement System of the State of Maryland." All school system employees who were members of the "Retirement System" may remain in that System or may elect to join the "Pension System." All teachers hired within the State after December 31, 1979 must join the "Pension System for Teachers." All classified employees hired within the State after December 31, 1999 must join the "Pension System for Employees." The "Teachers' Retirement System" and the "Pension System for Employees" cover those employees not covered by the teachers' plans. These employees are principally custodial, maintenance and food service employees.

These pension plans provide pension benefits and death and disability benefits. A member may retire after 25 years of service from the Retirement System and as early as age 55 and 15 years of service for the Pension System. Benefits generally vest after 5 years of service. The State Retirement Agency issues a comprehensive annual financial report for the State Retirement and Pension System of Maryland. That report may be obtained by writing to State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202, or by calling 1-800-492-5909, or by e-mail at sra@sra.state.md.us.

Both the "Retirement System" and the "Pension System" for teachers and classified employees are jointly contributory. Under the "Retirement System" employees contribute 4% - 7% of their total gross salary, and under the "Pension System" employees contribute 2% of their gross salary. Effective, July 1, 1980, in accordance with the law governing the Systems, all benefits of the Systems are funded in advance. Annually appropriated employer contribution rates for retirement benefits are determined using the entry age normal cost method. The method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 12. Retirement Plans (Continued)

Washington County School System contributions totaling \$949,875 and \$906,810 or 7.29% of covered payroll, and contributions by the State of Maryland on behalf of the School System totaling \$8,679,057 and \$8,491,439 or 9.35% of covered payroll for fiscal years 2006 and 2005 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2004. Significant actuarial assumptions used include (a) a rate of return on the investment of present and future assets of 7.75% per year compounded annually, (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00 percent to 11.96 percent per year, attributable to seniority/merit, (d) post-retirement benefit increases ranging from 3 percent to 4 percent per year depending on the system, (e) rates of mortality, termination of service, disablement and retirement are based on actual experience during the period from 1981 to 2002, and (f) the aggregate active member payroll is assumed to increase by 4 percent annually.

These assumptions varied slightly from assumptions in prior years.

The actuarial value of assets was determined using a simplified five-year moving average. Under this method, the year end actuarial asset value equals one-fifth of the current fiscal year end fair value, plus four-fifths of the expected market value. The unfunded actuarial valuation accrued liability which existed as of June 30, 2000 actuarial valuation is being amortized over the remaining 18-year period to June 30, 2020. Each new layer of unfunded actuarial accrued liability arising subsequent to June 30, 2000 is being amortized over a twenty-five year period. A three-year trend of the School System's annual pension cost is as follows:

Fiscal Year Ending June 30,	Total Annual Pension Cost (APC)	APC Contributed By School System	APC Contributed By State	Percentage of APC Contributed	Net Pension Obligation
2004	\$8,843,117	\$620,543	\$8,222,574	100%	\$ -
2005	\$9,398,249	\$906,810	\$8,491,439	100%	\$ -
2006	\$9,628,932	\$949,875	\$8,679,057	100%	\$ -

The contributions made by the State of Maryland on behalf of the School System were recognized as both revenue and expenditures in the General Fund as required by Government Accounting Standards Board Statement No. 24.

Note 13. Risk Management

County:

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County purchases commercial insurance for claims in excess of deductible amounts for all risks of loss, except for employee health and workers compensation. Settlements have not exceeded insurance coverages during the past three fiscal years.

The County Commissioners have established a self-insurance plan for health benefits to its employees, retirees and to other governmental and non-profit agencies. Budgeted amounts are charged to each fund, and premiums are charged to retirees and other governmental and non-profit agencies for their share of the costs, which are intended to cover the estimated costs of claims and administrative expenses. Contributions from employees, retirees and other governmental non-profit agencies are offset against budget amounts charged in the related fund. Under this plan the County's general fund bears all risk of loss.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management (Continued)

The County has established claims liabilities based on estimates of the ultimate cost of settling the claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved.

Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

The liability for estimated claims was determined to be \$1,500,000 which is reflected in the accompanying financial statements at June 30, 2006. Changes in the claims liability were as follows:

	Years ended June 30,	
	2006	2005
	<u> </u>	<u> </u>
Liability at beginning of year	\$ 1,800,240	\$ 1,845,704
Claims and changes in estimates during the year	5,635,152	5,497,704
Claims and administrative costs paid	<u>(5,935,392)</u>	<u>(5,543,168)</u>
Liability at end of year	<u>\$ 1,500,000</u>	<u>\$ 1,800,240</u>

The County uses a third party administrator to process and pay claims. The County has purchased a stop-loss insurance policy. Under this policy the County was liable for the first \$6.1 million of claims paid in the current fiscal year. Any claims in excess of this amount are to be paid by the insurance company under the stop-loss policy.

The County Commissioners have also established a self-insurance plan for Workers' Compensation claims whereby the County is liable for the first \$350,000 per occurrence. As required by the State of Maryland, \$175,000 in U.S. Treasury Notes is held by the State Workers' Compensation Commission and is included in investments on the balance sheet. The County extends coverage under this plan to the employees of other governmental and nonprofit agencies. These agencies are charged a "premium", however the County bears the risk of loss. The liability for estimated claims was determined to be \$1,200,000, which is reflected in the accompanying financial statements at June 30, 2006. Changes in the claims liability were as follows:

	Years ended June 30,	
	2006	2005
	<u> </u>	<u> </u>
Liability at beginning of year	\$ 1,500,000	\$ 770,000
Claims and changes in estimates during the year	872,387	1,789,205
Claims and administrative costs paid	<u>(1,172,387)</u>	<u>(1,059,205)</u>
Liability at end of year	<u>\$ 1,200,000</u>	<u>\$ 1,500,000</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management (Continued)

Board of Education:

The School System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; personal injury; and natural disaster. The School System is one of fifteen Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Group Insurance Pool (the Pool), a public entity risk pool organized as a trust. The School System pays an annual premium to the pool for its property, liability, and automobile coverage. Such premiums are actuarially calculated for the pool as a whole based on loss data and are allocated to members based on student enrollment and number and type of vehicles as well as experience modification factors. The Pool is reinsured on a claims-made basis for legal liability covering claims aggregating \$3 million per district per year.

Additionally, the School System is one of eleven Boards of Education within the State of Maryland belonging to the Maryland Association of Boards of Education Workers' Compensation Group Self-Insurance Fund (the Fund). This fund was established to provide worker's compensation indemnity and medical benefits coverage for participating school boards. The fund is operated under regulations promulgated by the State's Workers' Compensation Commission (COMAR 14.09.02). Each Fund

participant pays an annual premium calculated on its payroll according to the standard classifications, with an experience modification applied. Although premiums billed to the Fund members are determined on an actuarial basis, ultimate liability for claims remains with the respective members and accordingly, the insurance risks are not transferred to the Fund. Six months following the end of the Fund's fiscal year, the Fund's trustees declare unneeded funds as surplus and distribute 50% of the declared surplus as dividends to the Fund members. This dividend distribution is made no sooner than one year after the close of that fiscal year. Members dedicate the remaining 50% of the surplus each year to a surplus fund until it reaches 100% net annual premium. The Fund carries an excess insurance policy providing specific excess and employer liability protection coverage, thus reducing the potential of assessment against Fund members. The Fund provides coverage for up to a maximum of \$250,000 for each worker's compensation claim.

Settled claims from these risks have not exceeded the planned coverage during any of the past three years.

The School System also offers a program of self-insured health and dental benefits to its employees and retirees. Charges are made to other Funds, employees and retirees for their respective share of the costs in amounts planned to match the estimated claims, the cost of insurance premiums for coverage in excess of self-insured amounts and the administrative costs in providing the program. Such costs are also offset by interest income earned from investing receipts until they are paid out in the form of claims or expenses. Administrative costs directly related to the program are borne by the Self-Insurance Fund.

In accordance with the Governmental Accounting Standards Board's Statement No. 10 "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," charges to other funds must be accounted for as revenue by an internal service fund and expenditures/expenses by the other funds. The amount of these charges were \$17,205,397 and \$16,222,211 for the years ended June 30, 2006 and 2005, respectively.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 13. Risk Management (Continued)

The Self-Insurance Fund's accrued liabilities include an estimate of the amount to be paid for self-insured claims incurred prior to June 30, 2006. This estimate is prepared based upon the School System's experience and other relevant facts. Changes in the Fund's claims liability amount were as follows:

	Years ended June 30,	
	2006	2005
Liability at beginning of year	\$ 1,704,585	\$ 2,346,127
Claims and changes in estimates during the year	20,652,628	16,738,688
Claims paid	<u>(20,141,017)</u>	<u>(17,380,230)</u>
Liability at end of year	<u><u>\$ 2,216,196</u></u>	<u><u>\$ 1,704,585</u></u>

Note 14. Deferred Compensation Plan

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 and administered by a third party. The plan, available to all County employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan assets are held in trust for the exclusive benefit of the plan participants. Therefore, the plan assets are not presented in the financial statements.

Note 15. Agency Fund Deferred Tax Sales Proceeds

Tax sales proceeds are accounted for in the Agency Fund. Three years after the date of a tax sale, the net proceeds can be transferred to the General Fund. For seven years thereafter, property owners or their heirs may petition the Court for the net proceeds of the tax sale, and the proceeds revert back to the Agency Fund. At the end of the seven-year period, the proceeds are recognized as income to the County. Proceeds not transferred to the General Fund are accounted for as deferred tax sales proceeds, and included as deferred revenue on the balance sheet.

Note 16. Segment Information

The County has entered into loan agreements with the Maryland Water Quality Financing Administration. The loans are backed by the full faith and credit and taxing power of the County, however the source of payment of the principal and interest of the loans is the sewer user charges and pretreatment facility user charges. The user charges are accounted for in the Water Quality Fund. Summarized financial information for the Sewer and Pretreatment operations is presented below. The Water Quality

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 16. Segment Information (Continued)

Department operates the County's sewage treatment plants, sewage pumping stations, collection systems and pretreatment facility.

	<u>Sewer Department</u>	<u>Pretreatment Department</u>
CONDENSED STATEMENT OF NET ASSETS		
Assets		
Current assets	\$ 13,518,523	\$ 2,331,681
Noncurrent assets	<u>85,563,112</u>	<u>7,083,432</u>
Total assets	<u>\$ 99,081,635</u>	<u>\$ 9,415,113</u>
Liabilities		
Other current liabilities	8,197,343	1,591,496
Noncurrent liabilities	<u>19,704,407</u>	<u>7,104,261</u>
Total liabilities	<u>\$ 27,901,750</u>	<u>\$ 8,695,757</u>
Net assets		
Invested in capital assets, net of related debt	\$ 63,452,238	\$ -
Unrestricted	7,378,885	719,356
Restricted - capital projects	<u>348,763</u>	<u>-</u>
Total net assets	<u>\$ 71,179,886</u>	<u>\$ 719,356</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Operating revenues	\$ 8,202,275	\$ 778,044
Outsourcing revenues	144,000	-
Depreciation expense	(1,701,930)	(197,577)
Other operating expenses	<u>(3,689,896)</u>	<u>(374,259)</u>
Operating income	\$ 2,954,449	\$ 206,208
Nonoperating revenues (expenses):		
Interest income	\$ 43,930	\$ -
Interest expense	(898,297)	(285,366)
Utility administration charge	(2,314,747)	-
(Loss) on disposal of assets	-	-
Operating transfers	2,412,600	350,000
Capital transfers	63,000	-
Grants for capital projects	<u>650,000</u>	<u>-</u>
Change in net assets	2,910,935	270,842
Beginning net assets	<u>68,268,951</u>	<u>448,514</u>
Ending net assets	<u>\$ 71,179,886</u>	<u>\$ 719,356</u>
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ (8,352,101)	\$ 690,725
Noncapital financing activities	2,412,600	350,000
Capital and related financing activities	(5,017,224)	(669,389)
Investing activities	<u>43,930</u>	<u>-</u>
Net increase (decrease)	(10,912,795)	371,336
Beginning cash and cash equivalents	<u>11,548,534</u>	<u>1,960,345</u>
Ending cash and cash equivalents	<u>\$ 635,739</u>	<u>\$ 2,331,681</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 17. Closure and Postclosure Care Cost

State and federal laws and regulations require the County to place a final cover on its landfills when they stop accepting waste. The County is also required to perform certain maintenance and monitoring functions at the site for up to thirty years after closure. Although closure and postclosure care costs will be paid only near the date or after the date that the landfill stops accepting waste, the County reports a portion of these closure and postclosure care costs as a liability based on landfill capacity used as of each balance sheet date.

The Hancock Landfill was closed in 1993. The remaining estimated costs associated with the closure and postclosure care costs of \$309,161 are reported as a liability in the Solid Waste Fund. No current expense was recognized in the Solid Waste Fund for the year ended June 30, 2006.

The Resh Landfill has reported a landfill closure and postclosure care liability of \$19,600,304 in the Solid Waste Fund. The total capacity has been used. The Resh Landfill was closed in December 2000. Expense of \$3,809,205 was recognized in the Solid Waste Fund for the year ended June 30, 2006, due to a change in the estimate of the total post closure costs.

The Rubble Landfill began operating during August 1995. The estimated costs associated with post closure care of \$302,400 is reported as a liability in the Solid Waste Fund at June 30, 2006. The Rubble Landfill was closed in December 2000. Expense of \$450,950 was recognized in the Solid Waste Fund for the year ended June 30, 2006.

The 40 West Landfill began operation in fiscal year 2001. The estimated life of this landfill is 40 years at June 30, 2006, it is estimated that approximately 10% of the capacity has been used. The estimated costs associated with closure and postclosure care of \$4,358,742 are reported as a liability in the Solid Waste Fund at June 30, 2006. The County will recognize \$41,828,000 of estimated cost associated with the closure and postclosure care as capacity is filled. Expense of \$1,281,923 was recognized in the Solid Waste Fund for the year ended June 30, 2006.

The above estimates are based on estimated current costs to perform all closure and postclosure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to meet certain closure and postclosure financial assurance requirements. The County has satisfied these requirements by demonstrating in information submitted by the Chief Financial Officer that they meet the Local Government Financial Test as of June 30, 2006 as specified in 40CFR258.

Note 18. Postretirement Benefits

The County offers postretirement health care benefits to employees who retire from the County under normal or early retirement provisions of the pension plan. The health care benefits are provided until the retiree is eligible for Medicare. Retirees who exercise the one-time option for the health care benefits pay one-half of the estimated cost of the benefits. The County pays the remaining cost as part of its self-insurance program. Currently, twenty-seven retirees are receiving benefits and forty-seven employees are retirement eligible. Expenditures for postretirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported.

The County offered a special termination benefit to employees that retired between July 1, 1995 and September 30, 1995. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare. Four former employees are receiving this benefit.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 18. Postretirement Benefits (Continued)

The County offered a special termination benefit to employees that retired between July 1, 1996 and September 30, 1996. Those employees are receiving health care benefits (managed care program) from the date of retirement until they are eligible for Medicare. Four former employees are receiving this benefit.

Based on the current estimated cost of these managed care programs, the total cost of the benefits net of benefits paid through June 30, 2006 is estimated at \$853,296, of which \$123,805 is expected to be paid within the next year. A liability for this amount has been recorded in the governmental activities.

During the year, expenditures of approximately \$333,146 were recognized for postretirement health care.

Note 19. Contingencies and Commitments

County:

The fund financial statements included herein for Black Rock Golf Course and the Public Transit Funds have been prepared on a going-concern basis, which contemplates the realization of assets and liquidation of liabilities in the ordinary course of business. The continuity of the golf course and transportation systems as enterprises of the County is dependent upon continued subsidies from the General Fund and from other governmental units. Should the continuity of these systems be interrupted, the stated amount of assets would not necessarily constitute a fair basis of presentation. The liabilities ultimately represent obligations of the County.

In the normal course of operations, the County receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

The County Commissioners and the Sheriff of Washington County are defendants in various legal proceedings at June 30, 2006. There are also certain unasserted claims that could possibly be asserted. The Commissioners intend to defend all litigations against them. In the Commissioners' opinion, the liability, if any, in or arising from these litigations or any other legal proceedings in which the County is involved, will not have a material adverse effect on its financial condition.

The County is committed under various contracts for the construction or acquisition of fixed assets. These projects are generally budgeted in the Capital Projects Fund, and funding has been provided for their completion.

In 2003, the County began a project to extend and reconstruct a runway at Hagerstown Regional Airport. The project is estimated to cost \$60,200,000 and expected to be completed by 2008. Grant funding is projected to extend through 2014, which required the County to obtain interim financing to complete the project. In July 2003, the Federal Aviation Administration announced its intention to obligate federal funds in the aggregate of \$47,000,000. The State intends to fund \$8,000,000, which does not require a local match. The County also expects to receive an additional \$2,611,111 from the State, which the County must match. The County will also be responsible for the additional costs for financing. The County entered into a contract with URS Corporation for architectural, engineering and other consulting services related to the project. Additionally, the County signed a construction contract on March 30, 2004 for Phase 1 for a base price of \$17,429,655, which has been substantially completed. Contracts for additional phases of the project in the amount of \$1,155,236, \$17,443,718, and \$2,448,500 have also been awarded. Through June 30, 2006, the total amount expended for the project was \$34,766,931 of which \$26,569,384 was federally funded, \$5,287,018 was state funded and \$2,910,529 was locally funded.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 19. Contingencies and Commitments (Continued)

Board of Education:

In the normal course of operations, the School System is subject to lawsuits and claims. In the opinion of management, the disposition of such lawsuits and claims will not have a material effect on the School System's financial position or results of operations.

As of June 30, 2006, the School System had entered into various school construction commitments, which are not reflected in the financial statements since they will be funded by the State of Maryland or County bond issues, totaling approximately \$5,845,729.

In May 2004, the School System agreed to a three-year contract for testing data analysis and evaluation services of \$400,000 plus travel costs with Performance Matters, LLC. This agreement is to facilitate access of Washington County Public School System employees to the Washington County Public School System Scorecard. After the expiration of the initial term, this agreement shall automatically renew on the terms and conditions contained herein for up to three additional consecutive one-year periods upon the anniversary date of the initial term. In December 2004, the agreement was amended to expand the scope of services, resulting in an additional \$72,500 over the remaining term of the contract.

The School System participates in a number of state and federally assisted grant programs, which are subject to financial and compliance audits by the grantors or their representatives. Such federal programs were audited in accordance with the Federal Office of Management and Budget's Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations* for the current year. The amount of expenditures that may be disallowed by the granting agencies cannot be determined at this time, although the School System expects such amounts, if any, to be immaterial.

Note 20. Designated and Reserved Fund Balances

Fund balances reflected in the governmental funds balance sheet are designated as follows:

Cash Reserves:	
General Fund	\$ 29,545,335
Program Reserves:	
Foreign Trade Zone	6,692
Community Partnership	504,361
Inmate Welfare	302,776
Agricultural Education Center	158,528
Highway	4,321,530
Capital projects	<u>59,969,216</u>
Total Primary Government	<u>\$ 94,808,438</u>

The County calculates the level of working capital and liquidity that is necessary to maintain, which is referred to above as cash reserves.

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

NOTES TO FINANCIAL STATEMENTS

Note 20. Designated and Reserved Fund Balances (Continued)

At June 30, 2006, various County departments and other entities owe the general fund the following amounts:

Due From	Amount	Amount Reserved
Hagerstown Regional Airport	\$ 596,030	\$ 509,386
Black Rock Golf Course	164,864	117,759
Ron Maxwell Productions, Inc.	325,223	247,102
Town of Funkstown	2,775	1,112
Washington County Association for Retarded Citizens	50,000	50,000
Fire and Rescue Revolving Loan Fund	443,691	443,691
	<u>\$ 1,582,583</u>	<u>\$ 1,369,050</u>

Fund balance as indicated has been reserved to reflect the payments that the general fund will receive subsequent to the fiscal year ending June 30, 2006. Such payments are considered to be "available for appropriation or expenditure" when they will be received during the next fiscal year.

Note 21. Retirement Plan - Fire and Rescue Volunteers

On September 26, 2000, the Board of County Commissioners approved the Volunteer Length of Service Award Program (LOSAP), a defined benefit plan for eligible volunteers of Washington County fire, rescue, emergency medical services or support organizations. The Plan, which will be funded entirely by the County general fund, provides benefit payments to volunteers who have completed certain eligibility and years of service. An active volunteer who has attained age 62 and has been credited with a minimum of 25 years of Active LOSAP Service is eligible to receive, until his or her death, a monthly benefit payment of \$200, or may elect an actuarially reduced benefit in the form of a joint survivor annuity.

An Active Volunteer, who has completed more than 25 years of Active LOSAP Service Credit, is eligible to receive, until his or her date of death, an additional monthly benefit payment of \$15 for each year of Active LOSAP Service Credit in excess of 25 years, not to exceed a total monthly benefit payment of \$350. No benefits under the Plan will be paid before January 1, 2007. Generally, a volunteer must be an Active Volunteer on or after January 1, 2007 to be eligible for any benefit under the Plan. The Plan also provides for death and disability benefits.

At July 1, 2005, the date of the latest actuarial valuation, there were 1,694 active volunteers participating in the Plan. The County funds the plan in annual amounts determined by an actuary.

As of July 1, 2005 the LOSAP unfunded accrued liability is as follows:

Accrued Liability	\$ 4,107,411
Less: Assets at market value	<u>(2,423,128)</u>
Unfunded Accrued Liability	<u>\$ 1,684,283</u>

The minimum recommended contribution, for the plan year beginning July 1, 2005 is as follows:

Normal costs	\$ 210,567
Amortization of UAL (over 17 years)	168,519
Interest on UAL	<u>29,379</u>
	<u>\$ 408,465</u>

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2006
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Property Tax				
Real property tax	\$ 76,316,150	\$ 76,316,150	\$ 78,301,949	\$ 1,985,799
Personal property tax	11,527,370	11,527,370	11,884,523	357,153
Property tax interest income	375,000	375,000	375,165	165
Other property tax	654,000	654,000	738,034	84,034
Property tax discounts and credits	(1,790,000)	(1,790,000)	(4,907,060)	(3,117,060)
Total Property Taxes	\$ 87,082,520	\$ 87,082,520	\$ 86,392,611	\$ (689,909)
Other Local Taxes				
Income tax	\$ 56,430,000	\$ 56,980,000	\$ 61,857,188	\$ 4,877,188
Admissions and amusement tax	340,000	340,000	406,003	66,003
Recordation tax	8,000,000	8,393,222	12,572,141	4,178,919
Trailer tax	390,000	390,000	388,878	(1,122)
Hotel/Motel tax	660,000	660,000	750,919	90,919
Total Other Local Taxes	\$ 65,820,000	\$ 66,763,222	\$ 75,975,129	\$ 9,211,907
Other Revenues				
Licenses and permits	\$ 1,673,886	\$ 1,673,886	\$ 1,736,817	\$ 62,931
Court costs and fines	274,510	274,510	225,440	(49,070)
Charges for services	702,000	702,000	580,146	(121,854)
Revenues from use of property	2,208,600	2,208,600	5,543,264	3,334,664
Reimbursed expenses	635,600	657,385	540,482	(116,903)
Miscellaneous revenues	150,700	267,332	378,689	111,357
Grant and shared revenues	2,322,050	5,076,382	4,809,246	(267,136)
Total Other Revenues	\$ 7,967,346	\$ 10,860,095	\$ 13,814,084	\$ 2,953,989
TOTAL REVENUES	\$ 160,869,866	\$ 164,705,837	\$ 176,181,824	\$ 11,475,987
EXPENDITURES				
General Government				
Legislative				
County Commissioners	\$ 226,960	\$ 226,960	\$ 229,293	\$ (2,333)
County Clerk	99,150	99,150	98,979	171
County Administrator	193,210	193,210	190,971	2,239
Public Information	74,580	74,580	69,270	5,310
Purchasing	368,390	368,390	329,162	39,228
Total Legislative	\$ 962,290	\$ 962,290	\$ 917,675	\$ 44,615
Judicial				
Circuit Court	\$ 1,116,230	\$ 1,070,230	\$ 1,019,632	\$ 50,598
Orphan's Court	31,400	31,400	28,866	2,534
State's Attorney	2,085,270	2,074,097	1,980,383	93,714
Sheriff - Judicial	1,070,040	1,070,040	1,044,803	25,237
Sheriff - Process Servers	109,640	109,640	97,264	12,376
Total Judicial	\$ 4,412,580	\$ 4,355,407	\$ 4,170,948	\$ 184,459
Election Board	\$ 569,870	\$ 569,870	\$ 519,480	\$ 50,390
Financial Administration				
Budget and Finance	\$ 909,000	\$ 924,000	\$ 890,243	\$ 33,757
Independent Auditing	56,500	56,500	52,500	4,000
Treasurer	365,260	365,260	354,672	10,588
Information Technologies	1,318,470	1,318,470	1,308,916	9,554
Total Financial Administration	\$ 2,649,230	\$ 2,664,230	\$ 2,606,331	\$ 57,899
County Attorney	\$ 610,060	\$ 610,060	\$ 593,856	\$ 16,204
Human Resources	\$ 564,350	\$ 564,350	\$ 572,631	\$ (8,281)
Planning and Zoning				
Planning and Community Development	\$ 1,092,920	\$ 1,092,920	\$ 970,929	\$ 121,991
Board of Zoning	61,130	61,130	41,830	19,300
Total Planning and Zoning	\$ 1,154,050	\$ 1,154,050	\$ 1,012,759	\$ 141,291

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2006
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Public Works				
Engineering	\$ 1,517,150	\$ 1,517,150	\$ 1,439,305	\$ 77,845
Department of Public Works	312,370	312,370	315,039	(2,669)
Total Public Works	\$ 1,829,520	\$ 1,829,520	\$ 1,754,344	\$ 75,176
County Owned Buildings				
Martin Luther King Center	\$ 71,480	\$ 71,480	\$ 60,072	\$ 11,408
Administrative Building	278,500	268,500	248,924	19,576
Court House	435,370	435,370	451,093	(15,723)
County Office Building	164,400	164,400	151,945	12,455
Administration Annex	68,400	68,400	48,237	20,163
Central Services	174,460	174,460	183,372	(8,912)
Rental Properties	24,320	24,320	12,665	11,655
Library Maintenance	26,500	26,500	8,925	17,575
Dwyer Center	26,500	36,500	28,776	7,724
Total County Owned Buildings	\$ 1,269,930	\$ 1,269,930	\$ 1,194,009	\$ 75,921
Gaming Office	\$ 194,000	\$ 194,000	\$ 162,465	\$ 31,535
Community Promotion				
Contributions to Non-profits	\$ 141,700	\$ 141,700	\$ 79,645	\$ 62,055
Economic Development	558,710	558,710	261,196	297,514
Grants	-	2,769,795	1,932,265	837,530
Total Community Promotion	\$ 700,410	\$ 3,470,205	\$ 2,273,106	\$ 1,197,099
Total General Government	\$ 14,916,290	\$ 17,643,912	\$ 15,777,604	\$ 1,866,308
Public Safety				
Sheriff Departments				
Patrol	\$ 5,900,210	\$ 5,913,193	\$ 5,760,619	\$ 152,574
Sheriff Auxillary Department	-	-	62,250	(62,250)
Narcotics Task Force	432,950	432,950	406,078	26,872
Total Sheriff Department	\$ 6,333,160	\$ 6,346,143	\$ 6,228,947	\$ 117,196
Fire and Rescue Services				
Volunteer Fire and Rescue - County Grants	\$ 2,899,824	\$ 2,899,824	\$ 2,829,389	\$ 70,435
Air Unit	18,250	18,250	19,208	(958)
Special Operations	164,030	164,030	137,978	26,052
Total Fire and Rescue Services	\$ 3,082,104	\$ 3,082,104	\$ 2,986,575	\$ 95,529
Corrections				
Detention Center	\$ 8,129,830	\$ 8,129,830	\$ 8,123,571	\$ 6,259
Total Corrections	\$ 8,129,830	\$ 8,129,830	\$ 8,123,571	\$ 6,259
Other Public Safety				
Building Inspection	\$ 1,532,370	\$ 1,532,370	\$ 1,533,730	\$ (1,360)
Plumbing Inspection	186,270	186,270	177,725	8,545
911 - Communications	1,483,610	1,483,610	1,467,086	16,524
Communications Maintenance	244,760	244,760	249,375	(4,615)
Emergency Management	61,690	61,690	36,082	25,608
Medical Examiner	6,000	6,000	6,635	(635)
Civil Air Patrol	3,595	3,595	3,595	-
Animal Control	1,047,988	1,047,988	1,049,460	(1,472)
Children's Village	20,000	20,000	20,000	-
Total Other Public Safety	\$ 4,586,283	\$ 4,586,283	\$ 4,543,688	\$ 42,595
Total Public Safety	\$ 22,131,377	\$ 22,144,360	\$ 21,882,781	\$ 261,579
Health				
Total Health	\$ 2,046,372	\$ 2,193,364	\$ 2,192,664	\$ 700
Social Services				
Total Contributions to Other Agencies	\$ 1,027,071	\$ 1,093,005	\$ 1,153,144	\$ (60,139)
Total Social Services	\$ 1,027,071	\$ 1,093,005	\$ 1,153,144	\$ (60,139)
Education				
Total Education	\$ 90,457,492	\$ 90,457,492	\$ 90,449,992	\$ 7,500

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

YEAR ENDED JUNE 30, 2006
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Parks, Recreation, and Culture				
Total Contributions to Other Agencies	\$ 2,363,933	\$ 2,363,933	\$ 2,363,933	\$ -
Parks Department	1,451,250	1,469,645	1,379,608	90,037
Martin L. Snook Park Pool	117,310	117,310	91,209	26,101
Recreation	496,430	496,430	488,000	8,430
Total Parks, Recreation, and Culture	\$ 4,428,923	\$ 4,447,318	\$ 4,322,750	\$ 124,568
Conservation of Natural Resources				
Weed Control	\$ 46,160	\$ 158,160	\$ 170,624	\$ (12,464)
Agricultural Extension Service	193,692	193,692	193,692	-
Cooperative Extension	34,969	34,969	34,969	-
Soil Conservation Service	45,200	66,985	45,200	21,785
Gypsy Moth Program	8,500	8,500	23,600	(15,100)
Total Conservation of Natural Resources	\$ 328,521	\$ 462,306	\$ 468,085	\$ (5,779)
General Operations				
Total General Operations	\$ 817,740	\$ 817,740	\$ 740,270	\$ 77,470
Overallocated Employee Insurance and Benefits				
Total overallocated Employee Insurance and Benefits	\$ 115,280	\$ 115,280	\$ (428,603)	\$ 543,883
Intergovernmental				
Water and Sewer operating transfer	3,120,000	3,120,000	3,120,000	\$ -
Public Transportation operating transfer	431,635	431,635	431,635	-
Airport operating transfer	99,990	99,990	279,222	(179,232)
Capital Projects operating transfer	5,846,094	6,576,354	16,576,354	(10,000,000)
Solid Waste operating transfer	950,000	950,000	950,000	-
Community Partnership operating transfer	123,680	123,680	123,680	-
Agricultural Education Center operating transfer	134,620	134,620	134,620	-
Grants to incorporated municipalities	1,375,000	1,375,000	1,382,248	(7,248)
Municipality in lieu of bank shares	38,543	38,543	38,543	-
Total Intergovernmental	\$ 12,119,562	\$ 12,849,822	\$ 23,036,302	\$ (10,186,480)
Debt Service				
Total Debt Service	\$ 12,481,238	\$ 12,481,238	\$ 10,565,211	\$ 1,916,027
TOTAL EXPENDITURES	\$ 160,869,866	\$ 164,705,837	\$ 170,160,200	\$ (5,454,363)
NET CHANGES IN FUND BALANCE	\$ -	\$ -	\$ 6,021,624	\$ 6,021,624
FUND BALANCE - BEGINNING			\$ 25,844,058	
FUND BALANCE - ENDING			\$ 31,865,682	

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
HIGHWAY FUND

YEAR ENDED JUNE 30, 2006
(UNAUDITED)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Highway user revenue	\$ 8,109,116	\$ 8,168,116	\$ 8,638,360	\$ 470,244
Reimbursed expenses	209,460	209,460	283,066	73,606
Other revenue	1,000	3,994	22,558	18,564
TOTAL REVENUES	\$ 8,319,576	\$ 8,381,570	\$ 8,943,984	\$ 562,414
EXPENDITURES				
General Operations	\$ 888,906	\$ 947,906	\$ 740,082	\$ 207,824
Road Maintenance	3,668,800	3,668,800	3,522,867	145,933
Snow Removal	693,130	693,130	420,055	273,075
Storm Damage	119,580	119,580	54,034	65,546
Traffic Control	377,590	377,590	449,039	(71,449)
Fleet Management	2,291,570	2,294,564	1,512,264	782,300
Various Road Projects	280,000	280,000	62,955	217,045
Billables	-	-	3,341	(3,341)
TOTAL EXPENDITURES	\$ 8,319,576	\$ 8,381,570	\$ 6,764,637	\$ 1,616,933
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 2,179,347	\$ (1,054,519)
OTHER FINANCING SOURCES (USES)				
Transfers out			\$ (1,539,830)	
TOTAL OTHER FINANCING SOURCES (USES)			\$ (1,539,830)	
NET CHANGES IN FUND BALANCE			\$ 639,517	
FUND BALANCE - BEGINNING			\$ 3,682,013	
FUND BALANCE - ENDING			\$ 4,321,530	

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY PARTNERSHIP FUND

YEAR ENDED JUNE 30, 2006
(UNAUDITED)

	Budgeted Amounts		Actuals Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Grant Revenues	\$ -	\$ 2,257,777	\$ 1,960,536	(297,241)
TOTAL REVENUES	<u>\$ -</u>	<u>\$ 2,257,777</u>	<u>\$ 1,960,536</u>	<u>\$ (297,241)</u>
EXPENDITURES				
General Operations	\$ 123,680	\$ 123,680	\$ 123,128	\$ 552
Office of Children, Youth and Families	-	1,925,898	1,732,316	193,582
Governor's Office of Crime Control and Prevention	-	42,300	26,010	16,290
Disadvantaged Disabilities Administration	-	30,536	30,536	-
Department of Juvenile Justice	-	-	-	-
Department of Earned Reinvestment	-	259,043	163,253	95,790
TOTAL EXPENDITURES	<u>\$ 123,680</u>	<u>\$ 2,381,457</u>	<u>\$ 2,075,243</u>	<u>\$ 306,214</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ (123,680)</u>	<u>\$ (123,680)</u>	<u>\$ (114,707)</u>	<u>\$ (603,455)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 123,680	\$ 123,680	\$ 123,680	\$ -
NET CHANGES IN FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,973</u>	<u>\$ (603,455)</u>
FUND BALANCES - BEGINNING			<u>\$ 495,388</u>	
FUND BALANCES - ENDING			<u>\$ 504,361</u>	

COUNTY COMMISSIONERS OF WASHINGTON COUNTY

**SCHEDULES OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

(Dollar amounts in thousands)

EMPLOYEES' RETIREMENT PLAN OF WASHINGTON COUNTY

<u>Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
7/1/03	31,024	42,765	11,741	72.5%	21,979	53.4%
7/1/04	37,085	48,700	11,615	76.1%	23,231	50.0%
7/1/05	43,237	56,841	13,604	76.1%	24,299	56.0%

BOARD OF EDUCATION (Discretely presented component unit):

<u>Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a) / c)</u>
6/30/02	32,323	34,131	1,808	94.7%	7,868	23.0%
6/30/03	32,631	34,975	2,343	93.3%	8,134	28.8%
6/30/04	33,485	36,326	2,841	92.2%	8,069	35.2%
6/30/05	34,519	39,133	4,614	88.2%	8,604	53.6%

**PROPOSED
FORM OF OPINION OF BOND COUNSEL**

County Commissioners of Washington County
Hagerstown, Maryland

Dear County Commissioners:

We have acted as Bond Counsel to County Commissioners of Washington County (the "Issuer") in connection with the issuance of its \$16,000,000 Washington County, Maryland Public Improvement Bonds of 2007 (the "Bonds"), dated May 15, 2007. All capitalized terms not defined herein shall have the meaning set forth in the Bonds.

We have examined the law and such certified proceedings and other materials as we deem necessary to render the opinions set forth below.

As to questions of fact material to our opinion, without undertaking to verify the same by independent investigation, we have relied upon the certified proceedings of the Issuer and certifications by public officials.

We do not express any opinion herein regarding any law other than the law of the State of Maryland (the "State") and the federal law of the United States of America.

With respect to the executed and authenticated Bond of the issue of Bonds that we have examined, and Bonds similarly executed and authenticated and identical thereto in form, except for numbers, interest rates, denominations and maturities, we are of the opinion that, under existing Maryland and federal law as of this date hereof:

(a) The Bonds are valid and legally binding general obligations of the Issuer to which its full faith and credit and taxing power are pledged, and for the payment of which the Issuer is empowered and directed to levy ad valorem taxes unlimited as to rate and amount upon all legally assessable property subject to assessment for unlimited taxation in Washington County.

(b) To provide for the payment of the principal of and interest on the Bonds, the Issuer, by the adoption of the Resolution, has covenanted to levy ad valorem taxes in rate and amount sufficient for that purpose in each fiscal year in which provisions must be made for the payment of such principal and interest.

(c) By the terms of the Act, the Bonds, their transfer, the interest payable thereon, and any income derived therefrom, including any profit made in the sale thereof, shall be at all times exempt from State, county, municipal or other taxation of every kind and nature whatsoever in the State, but no opinion is expressed as to estate or inheritance taxes, or to any other taxes not levied or assessed directly on the Bonds or the interest thereon.

(d) Interest on the Bonds (including any original issue discount properly allocable to a holder thereof) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), and may be subject the branch profits tax imposed on foreign corporations engaged in a trade or business in the United States. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds.

Other than as set forth in the preceding paragraphs (c) and (d), we express no opinion regarding the federal or State income tax consequences arising with respect to the Bonds.

We express no opinion regarding to accuracy, adequacy, or completeness of the official statement relating to the Bonds.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the Resolution may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur.

Very truly yours,

NOTICE OF SALE

WASHINGTON COUNTY, MARYLAND
\$16,000,000* PUBLIC IMPROVEMENT BONDS OF 2007
(Full Faith and Credit Obligations of the
County Commissioners of Washington County)
Dated May 15, 2007
DTC Book Entry

Electronic proposals will be received on behalf of the Board of County Commissioners of Washington County (the "Board") by the Director of the Office of Budget and Finance of Washington County, Maryland, at the County Commissioners' Meeting Room (Room 227), 100 West Washington Street, Hagerstown, Maryland 21740 until 11:00 a.m. Prevailing Eastern Time on Tuesday, May 22, 2007 the "Bid Date" (unless postponed as described in this Notice of Sale) for the purchase of the above-referenced bonds (the "Bonds") of the County Commissioners of Washington County (the "County"), all dated May 15, 2007, all bearing interest payable on January 1, 2008 (7 ½ months), and semiannually thereafter on July 1 and January 1 until maturity or earlier redemption, all issued under the provisions of Chapter 205 of the Laws of Maryland of 2004 ("Chapter 205"), and in accordance with a Resolution adopted on May 8, 2007.

Chapter 205 is hereafter referred to as the "Act".

The referenced bonds will mature serially July 1, in the years and principal amounts:

Public Improvement Bonds of 2007

<u>Maturing</u> <u>July 1</u>	<u>Principal</u> <u>Amount*</u>	<u>Maturing</u> <u>July 1</u>	<u>Principal</u> <u>Amount*</u>
2008	\$ 520,000	2018	\$ 795,000
2009	540,000	2019	825,000
2010	565,000	2020	865,000
2011	590,000	2021	900,000
2012	615,000	2022	940,000
2013	640,000	2023	980,000
2014	670,000	2024	1,025,000
2015	700,000	2025	1,065,000
2016	730,000	2026	1,115,000
2017	760,000	2027	1,160,000

*Preliminary; subject to change

Bid proposals must be submitted by electronic bidding via *PARITY* as described herein. The bid proposal submitted by electronic transmission must be received by 11:00 a.m. Prevailing Eastern Time on the Bid Date.

Purpose of Issue

The Bonds are to be issued to provide a portion of the financing for building improvements, airport projects, infrastructure projects, solid waste projects, and education projects.

Adjustments to Principal Amount

Should a revision to the aggregate principal amount of the Bonds and the revised principal amount of each maturity (collectively, the "Revised Amounts") occur, such revision will be published on TM3 not later than 9:30a.m., Prevailing Eastern Time, on the date of sale. In the event that no revisions are made or that such revisions are not published on TM3 before 9:30 a.m., Prevailing Eastern Time, on the date of sale, the Preliminary Amounts will constitute the Revised Amounts. Bidders shall submit bids based on the Revised Amounts and the Revised Amounts will be used to compare bids and select a winning bidder.

Bid Specifications

Each proposal must be submitted electronically as described below. No bid of less than 100% of the aggregate principal amount of the Bonds plus accrued interest from May 15, 2007, to the date of delivery of the Bonds, no oral or written bid and no bid for less than all of the Bonds described in this Notice of Sale will be considered by the Board.

The right is reserved to waive any irregularity or informality in any proposal and to reject any or all proposals. The judgment of the Director of the Office of Budget and Finance shall be final and binding upon all bidders with respect to the form and adequacy of any proposal received and as to its conformity to the terms of this Notice of Sale.

Each bidder shall submit one proposal on an "all or none" basis for the Bonds. Each proposal must specify the amount bid for the Bonds (not less than 100% of the aggregate principal amount of the Bonds) and must specify in multiples of one-eighth ($\frac{1}{8}$) or one-twentieth ($\frac{1}{20}$) of one percent (1%) the rate or rates of interest per annum which the Bonds are to bear but shall not specify (a) more than one interest rate for any Bonds having the same maturity, (b) a zero rate of interest, (c) any interest rate for any Bonds which exceeds the interest rate stated in such proposal for any other Bonds by more than three percent (3%), or (d) any interest rate for any maturity that is less than an interest rate specified for an earlier maturity.

PROCEDURES FOR ELECTRONIC BIDDING

Electronic Bids

Electronic bids will be received via *PARITY*, in the manner described below, until 11:00 a.m., Prevailing Eastern Time, on May 22, 2007.

Bids may be submitted electronically via *PARITY* pursuant to this Notice until 11:00 a.m., Prevailing Eastern Time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in *PARITY* conflict with this Notice, the terms of this Notice shall control. For further information about *PARITY*, potential bidders may contact *PARITY* at Dalcomp (212) 806-8304.

Disclaimer

Each prospective electronic bidder shall be solely responsible to submit its bid via *PARITY* as described above. Each prospective electronic bidder shall be solely responsible to make necessary arrangements to access *PARITY* for the purpose of submitting its bid in a timely manner and in compliance with the requirements of the Notice of Sale. Neither the County nor *PARITY* shall have any duty or obligation to provide or assure access to *PARITY* to any prospective bidder, and neither the County nor *PARITY* shall be responsible for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by *PARITY*. The County is using *PARITY* as a communication mechanism, and not as the County's agent, to conduct the electronic bidding for the Bonds. The County is not bound by any advice and determination of *PARITY* to the effect that any particular bid complies with the terms of this Notice of Sale and in particular the "Bid Parameters" hereinafter set forth. All costs and expenses incurred by prospective bidders in connection with their submission of bids via *PARITY* are the sole responsibility of the bidders; and the County is not responsible, directly or indirectly, for any of such costs or expenses. If a prospective bidder encounters any difficulty in submitting, modifying, or withdrawing a bid for the Bonds, such bidder should telephone *PARITY* at Dalcomp (212) 806-8304 and notify the County's Financial Advisor, Public Advisory Consultants, Inc. by facsimile at (410) 581-9808 and by telephone at (410) 581-4820.

Electronic Bidding Procedures

Electronic bids must be submitted for the purchase of the Bonds via *PARITY*. Bids will be communicated electronically to the County at 11:00 a.m., Prevailing Eastern Time, on May 22, 2007. Prior to that time, a prospective bidder may (1) submit the proposed terms of its bid via *PARITY*, (2) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Bonds, or (3) withdraw its proposed bid. Once the bids are communicated electronically via *PARITY* to the County, each bid will constitute an irrevocable offer to purchase the Bonds on the terms therein provided. The County shall not be responsible for any malfunction or mistake made by, or as a result of the use of the facilities of, *PARITY*, the use of such facilities being the sole risk of the prospective bidder. For purposes of the electronic bidding process, the time as maintained on *PARITY* shall constitute the official time.

No electronic bid will be accepted unless the bidder has submitted a financial surety bond or a bid check in the amount required for the good faith deposit.

If any provision of the Notice of Sale shall conflict with the information provided by BiDCOMP/*PARITY* as the approved provider of electronic bidding services, this Notice of Sale shall control.

Serial Bonds and Term Bonds

Bidders may designate in their proposal two or more consecutive serial maturities as a term bond, which matures on the maturity date of the last serial maturity of the sequence. More than one such sequence of serial maturities may be designated as a term bond. Any term bond so designated shall be subject to mandatory redemption in each year on the principal payment date and in the entire amount of each serial maturity designated for inclusion in such term bond.

Acquisition of Insurance at the Bidder's Option

The County has requested MBIA Insurance Corporation, AMBAC Indemnity Corporation, Financial Security Assurance Inc. and Financial Guaranty Insurance Company to qualify the Bonds for municipal bond insurance.

If the Bonds qualify for issuance of any policy of municipal bond insurance, then any purchase of municipal bond insurance or commitment therefore shall be made at the sole option and expense of the bidder and any increased costs of issuance of the Bonds resulting by reason of such insurance (including, without limitation, the premium for any such policy of municipal bond insurance and the fees of any rating agencies in connection therewith) shall be paid by such bidder. Any failure of the Bonds to be so insured or of any such policy of insurance to be issued shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds.

Basis of Award

Proposals will be opened promptly after 11:00 a.m. Prevailing Eastern Time, May 22, 2007. The successful bidder(s) will be determined based on the lowest interest cost to the County. The lowest interest cost shall be determined in accordance with the true interest cost (TIC) method by doubling the semiannual interest rate (compounded semi-annually) necessary to discount the debt service payments from the payment dates to the date of the Bonds and to the price bid, excluding interest accrued to the date of delivery. If two or more bidders offer to purchase such Bonds at the same lowest interest cost, then such award will be made to the bidder offering the highest purchase price. If two or more bidders offer to purchase such Bonds at the same lowest interest cost, with the same purchase price, the County shall have the right to award all of the Bonds to one bidder.

Good Faith Deposit

Each proposal must be accompanied by a Good Faith Deposit ("Deposit") in the form of a certified check upon, or a cashier's or treasurer's check of, a responsible banking institution, or a Financial Surety Bond, in the amount of \$320,000 and made payable to "Treasurer of Washington County." If a Financial Surety Bond is used it must be from an insurance company licensed to issue such a bond in the State of Maryland and pre-qualified by the County. Any such bond must be submitted to the financial advisor prior to the opening of the bids. The Financial Surety Bond must identify each bidder whose Deposit is guaranteed by such Financial Surety Bond.

If the Bonds are awarded to a bidder ("Purchaser") utilizing a Financial Surety Bond, then the Purchaser will be required to submit its Deposit to the County in the form of a certified check upon, or a cashier's or treasurer's check of, a responsible banking institution, or by wire transfer to a bank designated by the County, not later than 1:00 p.m. Prevailing Eastern Time on the next business day following the award. If such Deposit is not received by that time the Financial Surety Bond will be drawn upon by the County to satisfy the Deposit requirement.

The Deposit will be retained by the County to be applied in part payment for the Bonds, and no interest will be allowed upon the payment thereof. In the event the Purchaser shall fail to comply with the terms of its proposal, the Deposit may, at the option of the County, be retained as full-liquidated damages. Any checks of the unsuccessful bidders will be returned promptly after the Bonds are awarded.

Security

The full faith and credit and unlimited taxing power of the County are unconditionally pledged to the payment of the principal of the Bonds and the interest to accrue thereon.

Book-Entry Only

The Bonds will be issued by means of a book-entry system with no physical distribution of bond certificates made to the public. One bond certificate for each maturity will be issued to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), and immobilized in DTC's custody. The book-entry system will evidence ownership of the Bonds in the principal amount of \$5,000 and integral multiples thereof, with transfers of ownership interest of each actual purchaser of a Bond effected on the records of DTC and its participants. The successful bidder, as a condition to delivery of the Bonds, shall be required to deposit the bond certificates with DTC, registered in the name of Cede & Co., its nominee. All fees due DTC shall be paid by the successful bidder.

DTC may determine not to continue to act as securities depository for the Bonds at any time by giving notice to the County. The County may determine to select a different securities depository or the County may determine not to continue the book-entry system. If the County does not identify another qualified securities depository to replace DTC, the County will deliver replacement bonds in the form of fully-registered certificates.

Principal will be paid to Cede & Co., nominee of DTC, as registered owner of the Bonds at the principal corporate trust office of Manufacturers and Traders Trust Company, Baltimore, Maryland (the "Bond Registrar"), on the date such principal is payable upon presentment and surrender of the Bonds. Interest on the Bonds is payable on January 1, 2008 (7 ½ months), and semiannually thereafter on July 1 and January 1 of each year to Cede & Co., nominee of DTC as the registered owner of the Bonds.

Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC, and transfer of principal and interest payments to beneficial owners of the Bonds by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The County will not be responsible or liable for such transfers of payments or for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

Manufacturers and Traders Trust Company, Baltimore, Maryland will act as the Bond Registrar and as the Paying Agent for the Bonds.

Optional Redemption

Bonds that mature on or before July 1, 2017, are not subject to optional redemption prior to their maturities. Bonds which mature on or after July 1, 2018, are subject to optional redemption commencing on July 1, 2017, as a whole at any time or in part on any interest payment date, at the option of the County, without premium plus accrued interest thereon to the date fixed for redemption.

Legal Opinion

The Bonds will be issued and sold subject to approval as to legality by Venable LLP, Baltimore, Maryland, Bond Counsel. The approving opinion of Venable LLP will be delivered, upon request, to the purchaser or purchasers of the Bonds, without charge, and the text of the approving opinion will also be printed on, or attached to, each Bond.

Undertakings of the Successful Bidder

Upon award of the Bonds, the successful bidder shall advise the County of the initial reoffering prices to the public of each maturity of the Bonds. Simultaneously with or before delivery of the Bonds, the successful bidder shall furnish to the County a certificate in form and substance acceptable to Bond Counsel (a) certifying that a bona fide offering of the Bonds has been made to the public (excluding bond houses, brokers, and other intermediaries), and (b) stating the prices at which a substantial portion of each maturity of the Bonds were sold to the public (excluding bond houses, brokers, and other intermediaries).

Upon award of the Bonds, the successful bidder shall immediately advise the County whether bond insurance is being obtained and, if so, the cost of such insurance (to be borne by the successful bidder) and, before delivery of the Bonds shall furnish to the County, and cause the bond insurer to furnish to the County, certificates acceptable to Bond Counsel which will permit Bond Counsel to determine that the insurance constitutes a "qualified guarantee" under United States Treasury Arbitrage Regulations.

CUSIP Numbers

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print any such number on any Bond nor any error with respect thereto shall constitute cause for failure or refusal by the successful bidder to accept delivery of and pay for the Bonds in accordance with the terms of this Notice.

Official Statement

Within seven business days after the award of the Bonds to the successful bidder thereof on the date of sale, the County will authorize its Official Statement, which is expected to be substantially in the form of the Preliminary Official Statement referred to below. The Preliminary Official Statement has been deemed final by the County for the purpose of Rule 15c2-12 of the Securities and Exchange Commission, subject to revision, amendment and completion in a final Official Statement. The County will also issue any supplement or amendment to the Official Statement that may be necessary between the date of the Official Statement and the date of delivery of the Bonds. If requested and furnished to the County in writing by the successful bidder at or before the close of business on the day of sale, the County will include in the Official Statement such pricing and other information relating to the reoffering of the Bonds, if any, as may be so furnished. If the successful bidder furnishes no such information, the Official Statement will include the interest rates on the Bonds resulting from the proposal of the successful bidder and the other statements with respect to reoffering contained in the Preliminary Official Statement. Whether or not any such information is included in the Official Statement, the successful bidder shall be responsible to the County and its officials in all respects for the accuracy, fairness and completeness of such information, and for all decisions made with respect to the use or omission of such information in any reoffering of the Bonds, including the presentation or exclusion of any such information in any documents, including the Official Statement. Within seven business days after the award of the Bonds, the successful bidder will also be furnished, without cost, up to 150 copies of the Official Statement (and any amendment or supplement thereto).

Continuing Disclosure

In order to assist the successful bidder in complying with Securities and Exchange Commission Rule 15c212(b)(5) (the "Rule"), the County will undertake, pursuant to a continuing disclosure agreement, to provide certain information annually and notices of certain events. The form of Continuing Disclosure Agreement is included in the Preliminary Official Statement as Appendix D.

It shall be a condition to the obligation of the purchaser to accept delivery and pay for the Bonds that, simultaneously with or before delivery of and payment for the Bonds, said purchaser or purchasers shall be furnished, without cost, with the continuing disclosure agreement of the County dated as of the date of delivery of the Bonds, pursuant to which the County undertakes the continuing disclosure required by the Rule.

Delivery of the Bonds

Delivery of the Bonds will be made to the successful bidder or bidders at the offices of DTC located at 55 Water Street, New York, New York 10041, on or about June 7, 2007. Payment for the Bonds shall be made in immediately available funds.

The Bonds will be accompanied by the customary closing documents, including a no-litigation certificate, effective as of the date of delivery, stating that there is no litigation pending affecting the validity of any of the Bonds. It shall be a condition to the obligation of said purchaser or purchasers to accept delivery of and pay for the Bonds that, simultaneously with or before delivery and payment for the Bonds, said purchaser or purchasers shall be furnished a certificate of the President of the Board to the effect that, to the best of his knowledge and belief, the Official Statement (and any amendment or supplement thereto) (except for the Reoffering Information, as to which no view will be expressed) as of the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact and does not omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading and that between the date of sale and the date of delivery of the Bonds there has been no material adverse change in the financial position or revenues of the County, except as reflected or contemplated in the Official Statement.

Amendment and Postponement

The County reserves the right to modify or amend this Official Notice of Sale including, but not limited to, the right to adjust and change the principal amount of Bonds being offered; however, such modifications or amendments shall be made not later than 9:30am Prevailing Eastern Time on the date of the sale, and communicated through TM3.

The County reserves the right to postpone the date established for the receipt of bids. Any such postponement will be communicated through TM3. If any date fixed for the receipt of bids and the sale of the Bonds is postponed, any alternative sale date will be announced via TM3 at least 24 hours prior to such alternative sale date. In addition, the County reserves the right, on the date established for the receipt of bids, to reject all bids and establish a subsequent date on which bids will again be received. If all bids are rejected and a subsequent date for receipt of bids established, notice of the subsequent sale date will be announced via TM3 at least 24 hours prior to such subsequent sale date. On any such alternative or subsequent sale date, any bidder may submit a proposal for the purchase of the Bonds in conformity in all respects with this Official Notice of Sale except for the date of sale and except for the changes announced by TM3 at the time the alternative or subsequent sale date and time are announced.

Additional Information

The Preliminary Official Statement dated May __, 2007 together with this Official Notice of Sale and the required form of proposal, will be supplied to prospective bidders upon request made in writing to the financial advisor for the issuance of the Bonds, Public Advisory Consultants, Incorporated, 25 Crossroads Drive, Suite 402, Owings Mills, Maryland 21117, or by telephone, (410) 581-4820 or by facsimile transmission, (410) 581-9808 or by email, pac@paconsults.com.

COUNTY COMMISSIONERS OF
WASHINGTON COUNTY

By: _____ /s/ John F. Barr

**John F. Barr, President
Board of County Commissioners
of Washington County**

PROPOSAL FOR PUBLIC IMPROVEMENT BONDS OF 2007

Director of the Department of Budget and Finance
 Washington County, Maryland
 County Administration Building
 100 West Washington Street
 Hagerstown, Maryland 21740

Dear Madam:

Subject to the provisions and in accordance with the terms of the Official Notice of Sale which is incorporated by reference herein and made a part of this Proposal for Bonds, we offer to purchase the general obligation bonds of the County Commissioners of Washington County described in such Notice of Sale, being \$16,000,000* Washington County, Maryland Public Improvement Bonds of 2007, such bonds to be dated May 15, 2007 to mature July 1 in the several years shown in the table below (subject to prior redemption as provided in such Notice of Sale), and to bear interest at the rates per annum set opposite such years, respectively.

The referenced bonds will mature serially July 1, in the years and principal amounts:

Public Improvement Bonds of 2007

MATURITIES AND PRINCIPAL AMOUNTS

Maturing July 1	Principal Amount*	Maturing July 1	Principal Amount*
2008	\$ 520,000	2018	\$ 795,000
2009	540,000	2019	825,000
2010	565,000	2020	865,000
2011	590,000	2021	900,000
2012	615,000	2022	940,000
2013	640,000	2023	980,000
2014	670,000	2024	1,025,000
2015	700,000	2025	1,065,000
2016	730,000	2026	1,115,000
2017	760,000	2027	1,160,000

 *Preliminary; subject to change

We hereby designate that the following bonds be aggregated into Term Bonds maturing on July 1 of the following year(s) (leave blank if none specified):

_____	Years Aggregated	_____	Maturity Year
_____	through	_____	_____
_____	through	_____	_____

We will pay an amount equal to the par value of the bonds
 plus a premium (if any) in the amount of
 making a total sum of.....

We will also pay accrued interest on the Bonds from May 15, 2007 to the date of delivery thereof.

We will accept delivery in accordance with the Notice of Sale.

We enclose herewith a Deposit in the form of (please check one) _____ a certified check upon, or a cashier's, treasurer's or official check of, a responsible banking institution or _____ a Financial Surety Bond, payable to the order of "Treasurer of Washington County" in the amount of \$320,000, which Deposit is to be applied in accordance with the Official Notice of Sale.

We understand that, if we are the successful bidder, at the time the above-described bonds are awarded we will be required to advise the County of the initial reoffering prices (as described in the official Notice of Sale) for each maturity of such bonds and whether bond insurance is being obtained and, if so, the cost of such insurance to be borne by us. In this regard, you may communicate with and rely on the information provided by _____, whose telephone number (including area code) is _____.

By: _____
and Associates (See List Attached)

No addition or alteration, except as provided above and in the Official Notice of Sale, is to be made to this Proposal.

The following information is not a part of this Proposal and the omission or inaccuracy of this information will not affect the validity of this Proposal.

The interest cost of this Proposal as determined by the TIC method is _____%.

The aggregate interest to be paid on the Bonds from their dated date to their maturity is \$_____.

A municipal bond new issue insurance policy for the Bonds will be issued by _____; the amount of the premium to be paid by us is \$_____.

We acknowledge the return of the Deposit if in the form of a check: _____.

Public Advisory Consultants telephone number is (410) 581-4820 (voice) and (410) 581-9808 (facsimile).

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the **COUNTY COMMISSIONERS OF WASHINGTON COUNTY** (the "Issuer") in connection with the issuance of \$16,000,000 Washington County, Maryland Public Improvement Bonds of 2007 (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted on May 8, 2007 (the "Resolution"). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer for the benefit of the holders and the beneficial owners of the Bonds and to assist the Participating Underwriters in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Section 3 of this Disclosure Agreement.

"Listed Events" shall mean any of the events listed in Section 4(a) of this Disclosure Agreement.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories:

BLOOMBERG MUNICIPAL
REPOSITORY
100 Business Park Drive
Skillman, NJ 08558
Ph: (609) 279-3225
Fax: (609) 279-5962
E-Mail: Munis@Bloomberg.com

DPC DATA INC.
One Executive Drive
Fort Lee, NJ 07024
Ph: (201) 346-0701
Fax: (201) 947-0107
E-Mail: nrmsir@dpcdata.com

INTERACTIVE DATA PRICING
AND REFERENCE DATA, INC.
Attn: NRMSIR
100 William Street 15th Floor
New York, New York 10038
Ph: (212) 771-6999
Fax: (212) 771-7390
E-Mail: NRMSIR@Interactivedata.com

STANDARD & POOR'S
SECURITY EVALUATIONS, INC.
55 Water Street – 45th Floor
New York, NY 10041
Ph: (212) 438-4595
Fax: (212) 438-3975
E-Mail: nrmsir_repository@sandp.com

“Official Statement” shall mean the Official Statement dated May , 2007 relating to the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule. As of the date of this Agreement, there is no State Repository.

SECTION 3. Provision of Annual Financial Information, Operating Data, and Audited Information.

(a) The Issuer shall provide to each Repository annual financial information and operating data generally consistent with the information contained under the headings “Revenues and Expenditures” and “Debt Information” in the Official Statement, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2008.

(b) The Issuer shall provide to each Repository annual audited combined financial statements for the Issuer, such information to be made available within 240 days after the end of the Issuer’s fiscal year, commencing with the fiscal year ending June 30, 2008, unless the audited financial statements are not available on or before such date, in which event said financial statements will be provided promptly when and if available.

(c) The presentation of the financial information referred to in paragraph (a) and in paragraph (b) shall be made in accordance with the same accounting principles as utilized in connection with the presentation of applicable comparable financial information included in the Official Statement, provided, that the Issuer may modify the accounting principles utilized in the presentation of financial information by amending this Disclosure Agreement pursuant to the provisions of Section 8 hereof. Changes in Generally Accepted Accounting Principles, where applicable to financial information to be provided by the Issuer, shall not require the Issuer to amend this Disclosure Agreement.

(d) If the Issuer is unable to provide the annual financial information and operating data within the applicable time periods specified in (a) and (b) above, the Issuer shall send in a timely manner a notice of such failure to each Repository or to the Municipal Securities Rulemaking Board and the State Repository, if any.

(e) The Issuer did not file its Fiscal Year 2001 financial information until March 20, 2002. Other than as described in the previous sentence, the Issuer has not failed to comply with any prior undertakings under the Rule.

(f) Any filing under this Agreement may be made solely by transmitting such filing to the Municipal Advisory Council of Texas (the ‘MAC’) as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 4. Reporting of Significant Events.

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;

- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) modifications to rights of owners of the Bonds;
- (viii) Bond calls;
- (ix) defeasances;
- (x) release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would constitute material information for owners of Bonds. If the Listed Event constitutes material information for owners of Bonds, the Issuer shall promptly file a notice of such occurrence with each Repository or the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 5. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds. In addition, the Issuer may terminate its obligations under this Disclosure Agreement if and when the Issuer no longer remains an obligated person with respect to the Bonds within the meaning of the Rule.

SECTION 6. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Issuer may amend this Disclosure Agreement, and any provision of this Disclosure Agreement may be waived, if such amendment or waiver is supported by an opinion of counsel, expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

SECTION 8. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event. The Issuer has not failed to comply with any prior undertakings pursuant to the Rule.

SECTION 9. Limitation of Remedies. The Issuer shall be given written notice at the address set forth below of any claimed failure by the Issuer to perform its obligations under the Disclosure Agreement, and the Issuer shall be given 15 days to remedy any such claimed failure. Any suit or other proceeding seeking further redress with regard to any such claimed failure by the Issuer shall be limited to specific performance as the adequate and exclusive remedy available in connection with such action. Written notice to the Issuer shall be given to the Director of Finance, Washington County Administration Building, Room 251, 100 W. Washington Street, Hagerstown, MD 21740, or at such alternate address as shall be specified by the Issuer with disclosures made pursuant to Section 4(a) or 4(b) hereof or a notice of occurrence of a Listed Event.

SECTION 10. Relationship to Bonds. The Disclosure Agreement constitutes an undertaking by the Issuer that is independent of the Issuer's obligations with respect to the Bonds; any breach or default by the Issuer under this Disclosure Agreement shall not constitute or give rise to a breach or default under the Bonds.

SECTION 11. Law of Maryland. This Disclosure Agreement, and any claim made with respect to the performance by the Issuer of its obligations hereunder, shall be governed by, subject to, and construed according to the laws of the State of Maryland.

SECTION 12. Limitation of Forum. Any suit or other proceeding seeking redress with regard to any claimed failure by the Issuer to perform its obligations under this Disclosure Agreement must be filed in the Circuit Court for Washington County, Maryland.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Owners, including beneficial owners, from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: _____, 2007

ATTEST:

COUNTY COMMISSIONERS OF
WASHINGTON COUNTY

Joni L. Bittner, County Clerk

By: _____
John F. Barr, President
Board of County Commissioners
of Washington County

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Appendix E

Bond Insurance Policy Specimen

Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President

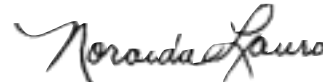


Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.



Authorized Officer of Insurance Trustee